
TRADEMARK LAW AND THE REPERCUSSIONS OF VIRTUAL PROPERTY (IRL)¹

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I. INTRODUCTION

Jolex—a brand of luxury watches and accessories—is a status symbol of the elite. Businessmen, wealthy socialites, and lawyers sport Jolex watches like a five-year-old showing off a new toy at playtime. The Swiss movement technology found in every Jolex watch contributes to its reputation as a prestigious brand of watch of exceptional quality. Jolex’s legal team works diligently to protect its brand, quality of workmanship, and profitability of goods by ensuring that only official Jolex watches carry the name. Its trademark and product design are registered at the Patent and Trademark Office. One day, a Jolex representative finds “Sammy’s Store of Watches” selling watches touted as “The Original Jolex” in a virtual community online. The watches are not physical, yet “Sammy’s Store” charges real money for virtual watches using the Jolex name. Jolex finds that it has no remedy under current law to prevent Sammy from selling its virtual watches, either in the form of an injunction or compensation for misappropriation of intellectual property. Does this seem fair?

While the Jolex mark is fictional, the hypothetical described above is frequently experienced by companies such as Rolex.² As of May 2007, Rolex, Chanel, Ferrari, Nike, Apple, and others found their brands infringed upon in

¹ IRL or “In Real Life” is “[o]ften used in Internet chat rooms to let people [know] you are talking about something in the real world and not in the internet world.” Urban Dictionary, IRL, <http://www.urbandictionary.com/define.php?term=IRL> (last visited Apr. 7, 2009).

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² BENJAMIN TYSON DURANSKE, VIRTUAL LAW: NAVIGATING THE LEGAL LANDSCAPE OF VIRTUAL WORLDS 150 (2008) [hereinafter DURANSKE, VIRTUAL LAW] (“At least forty stores . . . advertised virtual ‘Rolex’ and ‘Chanel’ watches, averaging around . . . (US \$1.61). Neither Rolex nor Chanel ran any of these stores.”).

the least expected of places—the virtual world.³

One such world, Second Life operated by Linden Lab, is an “online, 3D virtual world imagined and created by its residents,”⁴ which total over sixteen million as of January 2009.⁵ The virtual environment mimics the real world through an interactive body of residents, called avatars; rules similar to that of real-world society; and an in-game market economy for buying and selling virtual goods.⁶ Users, through their avatars, can interact with each other,⁷ attend musical concerts,⁸ visit foreign embassies,⁹ and even purchase virtual land.¹⁰ Users facilitate a market economy by creating, buying, and selling “valued” virtual property with Second Life currency—the Linden Dollar (“L\$”)¹¹—which already is exchangeable at several currency exchanges for real U.S. dollars.¹² The exchange is its own bustling market, with over twenty-four million Second Life transactions during February 2009.¹³ Founder and CEO of Linden Lab, Philip Rosedale, stated that Second Life merchants collectively were estimated to earn over \$1.3 million in transactions daily,¹⁴ making the service a

³ *Id.* at 150–51.

⁴ Second Life, <http://secondlife.com> (last visited Mar. 28, 2009) [hereinafter Second Life Official Site]; Linden Lab, <http://lindenlab.com> (last visited Mar. 28, 2009). Over 1.4 million users logged in during the sixty-day period ending April 14, 2009. Second Life, Economic Statistics, <http://secondlife.com/statistics/economy-data.php> (click “logged_in_users.xls”) (last visited Apr. 14, 2009) [hereinafter SL Economic Stats].

⁵ SL Economic Stats, *supra* note 4 (click “logged_in_users.xls”). Second Life data differentiate between total residents and residents logged in during the last sixty days; therefore, the number of total residents may include inactive residents. *See id.* A resident of Second Life is a “person represented by an avatar that represents their chosen digital persona.” Second Life, Frequently Asked Questions, <http://secondlife.com/whatis/faq.php> (last visited Apr. 17, 2009).

⁶ Second Life, What is Second Life?, <http://secondlife.com/whatis> (last visited Apr. 14, 2009) (“From the moment you enter the Second Life you’ll discover a fast-growing digital world filled with people, entertainment, experiences and opportunity.”) [hereinafter What is Second Life?].

⁷ *Id.*

⁸ David Jacoby, *SecondLife, Second Strife?*, 20 INTELL. PROP. & TECH. L.J. 7, 7 (2008) (noting that real-world artists and bands have given concert performances in Second Life).

⁹ *Id.* (noting the presence of embassies for the Maldives, Sweden, and Estonia within Second Life).

¹⁰ *Id.* (noting one Second Life resident claims to have earned “\$1 million through virtual ‘real’ estate transactions”); Second Life, Purchasing Land, <http://secondlife.com/land/purchasing.php> (last visited Apr. 14, 2009) [hereinafter SL Purchasing Land].

¹¹ The exchange rate as of April 2, 2009 was U.S. \$1.00 to L\$250. Second Life, Currency Exchange, <http://secondlife.com/whatis/currency.php> (last visited Apr. 2, 2009) [hereinafter SL Exchange].

¹² *See* Second Life, LindeX™ Market Data, <http://secondlife.com/statistics/economy-market.php> (last visited Apr. 2, 2009) [hereinafter SL Market Data]. The exchange of virtual goods for real life currency is also referred to as “real money trade” or “RMT.” *See* DURAN-SKE, VIRTUAL LAW, *supra* note 2, at 34–35.

¹³ SL Economic Stats, *supra* note 4 (click “resident_transactions_by_amount.xls”).

¹⁴ Posting of Jon Fortt to Big Tech Blog at Fortune.com, Linden Lab: Second Life En-

viable source of income for online business owners who create and sell virtual property.¹⁵

Second Life's tagline, "Your World. Your Imagination,"¹⁶ captures the theme of its virtual world, but where creation begins, imagination seems to end—at least in terms of product brands. For instance, more than fifty stores in Second Life sell virtual sunglasses by the purported brands "Gucci," "Prada," "Ray-Ban," and "Oakley."¹⁷ These stores apparently are not endorsed or sponsored by the companies that own the rights to these products.¹⁸ From Fendi bags to Nike shoes, the options for an avatar fashionista are endless, but when commercial entities find their unauthorized products being sold for real U.S. currency, a new host of legal questions arise.

One author of a blog covering legal issues in virtual worlds¹⁹ had this to say about trademark infringement within the game of Second Life:

The dirtiest little legal secret in Second Life isn't virtual escorts, illegal gambling, ponzi schemes, or even money laundering—the secret is this: misappropriation of major corporations' trademarks in Second Life is so ubiquitous, so safe, and so immensely profitable, that it has become a wholly transparent part of Second Life's bustling commercial landscape.²⁰

Capitalizing on the growth in popularity of massive multiplayer online role playing games ("MMORPGs"), a "hot" in-game market for designer clothing has developed to meet the demands of gamers seeking to cloak their virtual-world avatars.²¹ One commentator projected that around 2.4 million transactions that involve unlicensed trademarks, valued at roughly \$3.5 million annu-

trepreneurship Is Booming, <http://bigtech.blogs.fortune.cnn.com/2007/08/01/linden-lab-second-life-entrepreneurship-is-booming/> (Aug. 1, 2007, 12:13 EST).

¹⁵ See, e.g., Press Release, Anshe Chung Studios, Anshe Chung Becomes First Virtual World Millionaire (Nov. 26, 2006), available at http://www.anshechung.com/include/press/press_release251106.html [hereinafter Anshe Chung Press Release] ("Anshe Chung has become the first online personality to achieve a net worth exceeding one million US dollars from profits entirely earned inside a virtual world.").

¹⁶ What is Second Life?, *supra* note 6.

¹⁷ DURANSKE, VIRTUAL LAW, *supra* note 2, at 150.

¹⁸ *Id.*

¹⁹ *Id.* at xv ("Benjamin Tyson Duranske is a writer and an intellectual property attorney. He edits the website <http://virtuallyblind.com>, which tracks issues related to virtual law, and co-chairs the Committee on Virtual Worlds and Multiuser Online Games of the American Bar Association's Section of Science & Technology Law.").

²⁰ Benjamin Duranske, *Rampant Trademark Infringement in Second Life Costs Millions, Undermines Future Enforcement*, VIRTUALLY BLIND, May 4, 2007, <http://virtuallyblind.com/2007/05/04/trademark-infringement-vws> [hereinafter Duranske, *Virtually Blind Second Life*].

²¹ See Second Life, Business Opportunities, <http://secondlife.com/whatis/businesses.php> (last visited Apr. 2, 2009) [hereinafter SL Business Opportunities] (listing fashion designer as a business opportunity); see also Robert D. Hof, *My Virtual Life*, BUSINESSWEEK, May 1, 2006, at 72, 77 ("In January inside Second Life alone, people spent nearly \$5 million in some 4.2 million transactions buying or selling clothes, buildings, and the like.").

ally, occur within Second Life.²² Thus, Second Life cannot be regarded as just one of a dozen virtual fantasy worlds played solely for entertainment—it is a self-sustaining economy, facilitating monetary transactions of substantial value, with actual repercussions in the real world.²³

Monetary concerns aside, companies should be alarmed by the unauthorized proliferation of brand names in virtual worlds for two wholly different reasons.²⁴ First, trademark law requires companies to vigorously protect their mark from appropriation by unauthorized users.²⁵ Failure to do so can result in genericide, dilution, and loss of registration and exclusive use of the mark.²⁶ Second, though a commercial presence in the virtual world may seem unnecessary to a company right now, it may reconsider in the future and will have a difficult time entering if the market already is saturated with products using the company's mark.²⁷ Gartner, an information technology research and advisory company, has predicted that eighty percent of active Internet users and Fortune 500 enterprises will be represented in the virtual world by 2011, either in the form of non-game virtual worlds or MMORPGs.²⁸ Entering a virtual environ-

²² DURANSKE, *VIRTUAL LAW*, *supra* note 2, at 151.

There is no way to know exactly how many of these transactions involve knockoff goods, but a quick overview of in-world shopping areas reveals that well over one percent (probably closer to three to five percent) of the goods for sale in-world carry unlicensed trademarks. Assuming that even one percent of the transactions in-world involved unlicensed trademarks, there are well over 200,000 instances of profitable trademark infringement resulting in a sale in Second Life every month—over 2.4 million transactions a year. If the average infringing transaction is just \$1.50 (much less than the price of a market-saturated knockoff Rolex), and the other assumptions are accurate, over \$3.5 million changes hands in transactions involving counterfeit goods in Second Life every year.

Id.

²³ See *infra* Part IV (discussing the various ways virtual trademark infringement may be actionable).

²⁴ Duranske, *Virtually Blind Second Life*, *supra* note 20 (discussing reasons why companies that are not being financially hurt by trademark infringement in virtual worlds should care nonetheless about their existence).

²⁵ See *id.*; John H. Derrick, Annotation, *What Constitutes Abandonment of Trademark by Discontinuance of Use with Intent Not to Resume It, under § 45 of Lanham Act (15 USCS § 1127)*, 83 A.L.R. FED. 295, § 2 (1987) (stating that failure to take action against trademark infringers may be a factor in determining whether a trademark has been abandoned under 15 U.S.C. § 1127(a)).

²⁶ See Derrick, *supra* note 25, § 8.5 (stating that loss of a trademark may occur where a generic name has “lost its significance as source identifier”).

²⁷ Duranske, *Virtually Blind Second Life*, *supra* note 20 (arguing that counterfeit good transactions in Second Life may not be monetarily damaging enough to propel a business to enter the virtual world, but businesses should protect the option of future entrance nonetheless).

²⁸ Press Release, Gartner, Inc., Gartner Says 80 Percent of Active Internet Users Will Have A “Second Life” in the Virtual World by the End of 2011 (Apr. 24, 2007), available at <http://www.gartner.com/it/page.jsp?id=503861>.

ment in the future may be less valuable for a company whose products already exist in the virtual world and are being sold by others in the same virtual market.²⁹

In recent years, the online gaming business has reached extraordinary levels, becoming a multi-billion dollar industry with over sixteen million players³⁰ investing time and money to accumulate virtual property within the games.³¹ Companies are taking notice, as corporate product placement within these virtual worlds continues to increase.³² Intel and McDonald's have already paid millions to place their products in virtual worlds.³³ Forward-thinking companies will keep abreast of the future of virtual worlds, both for the sake of trademark protection and potential company growth.

This Comment discusses the applicability of trademark law to virtual property through an analysis of existing case law and trademark theory.³⁴ It suggests several ways in which (i) U.S. trademark law can be elucidated to reduce trademark infringement in virtual worlds, while providing incentives for maximum creativity; (ii) companies can protect their marks in virtual worlds to prevent future legal difficulties in the real world; and (iii) trademark disputes can best be minimized through an in-game arbitration system and in-game educational programs. Because Second Life provides the only virtual world where participants are permitted to retain their intellectual property explicitly, it is used throughout this Comment as a reference.³⁵

²⁹ See discussion *infra* Parts IV.A.1–2 (discussing the use of real-world trademarks by unauthorized game players and game providers and whether such use is actionable in court).

³⁰ See MMOGCHART.com, Total MMOG Active Subscriptions, <http://www.mmogchart.com/charts/chart4.html> (last visited Apr. 2, 2009).

³¹ RICHARD RAYSMAN, PETER BROWN, JEFFREY D. NEUBURGER & WILLIAM E. BANDON, *EMERGING TECHNOLOGIES & THE LAW: FORMS & ANALYSIS* §1.03(6) (2008).

³² Jacoby, *supra* note 8 (“[P]rominent commercial firms have invested substantial sums to have an SL presence, including Adidas, Reebok Coca-Cola, ING, Microsoft, Nissan, and SONY BMG Music, to name only a few.”).

³³ *Intel, McDonalds Enter Sims' World*, ZDNET, Sept. 16 2002, http://news.zdnet.com/2100-9595_22-125201.html. Electronic Arts spokesperson Jeff Brown explained when discussing the companies' decisions to place their products in virtual game Sims Online, “the game was appealing to Intel and McDonald's because almost all of its players are young people, with nearly 50 percent of them young women, a demographic group unrepresented by other video games.” *Id.* Brown also explained, “more product placement deals were likely to be announced before the game's launch, and that its online nature makes it easy for further products to be inserted later.” *Id.*

³⁴ Virtual worlds involve gamers that reside all over the world; therefore, when a legal problem occurs between citizens of different countries, jurisdictional as well as conflict of law issues might arise. For the purposes of this Comment, the laws implicated will be those laws that govern the United States only. For more information regarding choice of forum and choice of law provisions common to the terms of service agreements between virtual world users and providers, see DURANSKE, *VIRTUAL LAW*, *supra* note 2, at 30 (noting most user agreements contain choice of forum clauses).

³⁵ Second Life, Terms of Service, <http://secondlife.com/corporate/tos.php> (last visited

Part II of the Comment describes the new virtual frontier, how it has been shaped, and how it rapidly transformed in the past decade. It also examines how various virtual-world economies have been commoditized and the role of virtual property within them. Part III considers the ways in which trademark law is implicated in virtual worlds through a discussion of the trademark rules regarding use, confusion, dilution, and fair use. Part IV analyzes whether trademark law as applied to virtual property is actionable through an examination of commercial and entertainment use by both gamers and game providers alike. Part V explores the development of alternative and online dispute resolution methods and examines how these methods might be utilized as an alternative to lengthy and costly court adjudications to regulate virtual-world trademark disputes. Part VI discusses enforcement options for both gamers and companies who wish to protect their mark in the virtual world—arguing that the best option is in-game educational programs and an in-game arbitration system. Lastly, Part VII calls for immediate implementation of these programs to prevent further erosion of real-world trademark law.

II. THE VIRTUAL FRONTIER

A trademark can be a “any word, name, symbol, or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”³⁶ Therefore, an understanding of the different types of virtual worlds, how virtual economies exist within these worlds, and how the presence of commercial products within these economies can lead to trademark infringement is necessary to analyze the implication of trademark law in the virtual world. This section describes the evolution of the virtual frontier, including the different types of virtual worlds and the role virtual property plays in implicating trademark law within these worlds.

A. The Advent of Virtual Worlds

A virtual world is defined as, “a computer-based simulated environment intended for its users to inhabit and interact via avatars. This habitation usually is represented in the form of two or three-dimensional graphical representations

Apr. 14, 2009) [hereinafter SL TOS] (“You [the user] retain copyright and other intellectual property rights with respect to Content you create in Second Life.”).

³⁶ 15 U.S.C. § 1127 (2006); *see* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 (1995).

of humanoids”³⁷ An avatar is a player-created character with a unique look and attributes that can be saved and used throughout each game.³⁸ Virtual worlds typically take the form of MMORPGs³⁹ such as the popular games *Second Life*, *There.com*,⁴⁰ *World of Warcraft*, and *Ultima Online*.⁴¹ Most virtual worlds include social aspects and activities where players, through their avatars, can acquire virtual goods or assets.⁴² These collectible assets are known as “virtual property,” and can include anything from weapons to land.⁴³ Essen-

³⁷ John W. Crittenden, *Real I.P., Virtual Worlds—Issues in Litigating Trademarks and Unfair Competition Cases in Second Life and Like Spaces*, in LITIGATING TRADEMARK, INTERNET AND UNFAIR COMPETITION CASES 239, 241 (ALI-ABA Course of Study 2008), available at SN053 ALI-ABA 239 (Westlaw).

³⁸ DURANSKE, VIRTUAL LAW, *supra* note 2, at 7 (“The term originally comes from Hindu philosophy, where an ‘avatar’ is the physical manifestation of a higher being in the real world. In the virtual world, the tables are turned: the ‘higher being’ is the user, and the avatar is the user’s digital manifestation in the virtual world.” (citation omitted)).

³⁹ See D. Benjamin Beard & Christina L. Kunz, *Virtual Worlds Alongside the Real World*, BUS. L. TODAY, Nov.–Dec. 2007, at 19.

⁴⁰ *Second Life* and *There.com* are considered social virtual worlds where there are no goals to achieve or points to acquire in the traditional gaming sense. See *infra* Part II.B; see also *Second Life Official Site*, *supra* note 4; *There, What is There?*, <http://www.there.com/whatIsThere.html> (last visited Apr. 2, 2009) (“There is an online getaway where you can hang out with your friends and meet new ones—all in a lush 3D environment that’s yours to explore!”).

⁴¹ *World of Warcraft* and *Ultima Online* are considered combat or collection games where there are goals or quests, and players seek to acquire points or virtual property in the traditional gaming sense; this involves taking a character on a quest from a low-status beginning to a relatively high-power-status end. See *infra* Part II.B; see also *World of Warcraft*, Intro to WoW, <http://www.worldofwarcraft.com/info/beginners/index.html> (last visited Apr. 2, 2009) (“Players assume the roles of Warcraft heroes as they explore, adventure, and quest across a vast world. . . . Whether adventuring together or fighting against each other in epic battles, players will form friendships, forge alliances, and compete with enemies for power and glory.”); *Lady Mana, Welcome to Britannia, Ultima Online*, Mar. 25, 2009, <http://www.uoherald.com/guide/guide.php?guideId=111>.

[*Ultima Online*] allows you to choose what sort of profession you want to be in, and also enables you to customize every single one of your skills! Interact with an incredible player base and make new friends, meet new challenges, and explore a variety of lands and dungeons. You can also buy a plot of land and design your own house from top to bottom—then fill it with a collection of rare items and decorations. Wield powerful magic and slay your foes with a sword in hand, or even pilfer the possessions of unsuspecting passers-by and earn your living as an infamous thief!

Id.

⁴² RAYSMAN ET AL., *supra* note 31, § 1.03(6).

⁴³ *Id.* (defining virtual property as “an asset collected within an MMORPG, such as money, weaponry, clothing, land, or other goods that have ‘value’ inside the particular game’s virtual world”). See generally Joshua A.T. Fairfield, *Virtual Property*, 85 B.U. L. REV. 1047, 1053–55 (2005) (arguing that virtual property should be treated like real-world property under the law because it has three legally relevant characteristics: rivalrousness, persistence, and interconnectivity). Joshua Fairfield aptly summarizes his argument:

These traits—rivalrousness, persistence, and interconnectivity—mimic real-world properties. If I hold a pen, I have it and you don’t. Rivalrousness. If I put the pen down

tially, any good that has “value” inside the game’s virtual world qualifies as virtual property.⁴⁴ Thus, participants explore the virtual world with their avatars by wandering, socializing with other players, interacting with their surroundings, and collecting virtual property.⁴⁵ While modern multiplayer games are of increasing economic importance in today’s market, they began humbly over thirty-years ago.

Multi-player games first appeared in the late 1970s.⁴⁶ During this time, most virtual worlds were found in either freestanding video games or television-based games, such as Pacman and Space Invaders,⁴⁷ or early computer games, such as Adventure and Zork.⁴⁸ These games were limited in the way players could interact and the areas they could explore.⁴⁹ As Internet subscriptions increased in the early 1990s, proprietary network providers, such as Genie and CompuServe, began to operate online games and allowed gamers to participate online for a fee.⁵⁰ In the late 1990s, games such as Ultima Online, Lineage, and EverQuest helped to establish the internet-based MMORPG genre that exists today.⁵¹ Eventually, faster Internet connections combined with a more easily

and leave the room, it is still there. That is persistence. And finally, you can all interact with the pen—with my permission, you can experience it. That is interconnectivity. Why is code trying so hard to mimic these properties? Rivalrousness gives me the ability to invest in my property without fear that other people may take what I have built. Persistence protects my investment by ensuring that it lasts. Interconnectivity increases the value of the property due to network effects—not least of which is the fact that other people’s experience of my resource may be such that it becomes desirable, and hence marketable, to them.

Id. at 1054–55 (citation omitted).

⁴⁴ RAYSMAN ET AL., *supra* note 31, § 1.03(6).

⁴⁵ *See id.*

⁴⁶ Peter Brown, *What You Need to Know About Virtual Worlds: Virtual Property, Advertising, and Intellectual Property*, in INFORMATION TECHNOLOGY INSTITUTE 2008: NEW DIRECTIONS: SOCIAL NETWORKS, BLOGS, PRIVACY, MASH-UPS, VIRTUAL WORLDS AND OPEN SOURCE, 601, 605 (PLI Patents, Copyrights, Trademarks & Literary Prop. Course Handbook Series No. 929, 2008), available at 929 PLI/Pat 601 (Westlaw) (“Prior to MMORPGs, the only multi-player option was the Multi-User Dungeon (MUD) Run on a bulletin board system (BBS), these games were text-based and players created the characters, storylines and searches, which usually required them to fight monsters in order to become more powerful.”).

⁴⁷ *Id.*

⁴⁸ See Andrew D. Schwarz & Robert Bullis, *Rivalrous Consumption and the Boundaries of Copyright Law: Intellectual Property Lessons from Online Games*, 10 INTELL. PROP. L. BULL. 13, 14 (2005).

⁴⁹ See David P. Sheldon, Comment, *Claiming Ownership, but Getting Owned: Contractual Limitations on Asserting Property Interests in Virtual Goods*, 54 UCLA L. REV. 751, 755–56 (2007) (“Early virtual worlds consisted only of textual interactions between participants. While the sectioning of the world into different areas that participants could travel between as if they were physical locations infused early virtual interactions with a sense of ‘worldness,’ the text-based nature of the interaction limited its appeal.”).

⁵⁰ Brown, *supra* note 46, at 605.

⁵¹ Schwarz & Bullis, *supra* note 48, at 14–15 (noting that while Ultima Online became

accessible interface contributed to the monumental popularity and commercial success of virtual worlds.⁵² As opposed to previous multi-player virtual worlds that allowed only a few players to play at one time, these MMORPGs allowed thousands of players to interact simultaneously on the same platform.⁵³

Virtual worlds are hardly new, but the virtual frontier has reached uncharted territories in recent years.⁵⁴ Today, MMORPGs have developed into sophisticated, stylized games where, unlike standard computer games, the virtual world continues to exist and develop even when a given player is offline.⁵⁵ The always-on quality of these virtual worlds renders any given game unique and has helped to make the online gaming business a multi-billion-dollar technology industry.⁵⁶ As these games have become more complex over time, multiple types of virtual worlds have emerged.

popular as did Lineage in Asia in 1997, EverQuest was the most successful at establishing MMORPGs with over 400,000 subscribers in 1999).

⁵² Sheldon, *supra* note 49, at 756; *see* Brown, *supra* note 46, at 605 (noting the change from text-based to Internet-based play).

⁵³ Brown, *supra* note 46, at 605–06.

⁵⁴ *See id.* (explaining virtual worlds have existed since the 1970s); DURANSKE, VIRTUAL LAW, *supra* note 2, at 82 (“No one thought that objects in early text-based multi-user dungeons (MUDS) might one day be fought over in court.”).

⁵⁵ DURANSKE, VIRTUAL LAW, *supra* note 2, at 3. Benjamin Duranske refers to this always-on characteristic as “persistence” and describes the accessibility of online creations while offline as follows:

[I]f I create something in the world and then I log out and turn off my computer, the thing I created will stay there so that others can see it and interact with it when I am not online. In other words, what one user does can impact another user’s subsequent experiences, even if the first user is no longer logged into the virtual world.

Id.

⁵⁶ *See id.* (explaining the always-on aspect of virtual worlds); Press Release, DFC Intelligence, Online Game Market Forecasted to Reach \$13 Billion by 2011 (June 6, 2006), <http://www.dfcint.com/wp/?p=52> [hereinafter DFC Online Game Market Forecast] (stating 2005 revenues were \$3.4 billion in 2005 and expected to increase by \$13 billion in 2011); *see also* Press Release, Parks Associates, Online Gaming Revenues to Triple by 2009 (Dec. 14, 2005), http://www.parksassociates.com/press/press_releases/2005/gaming-1.html [hereinafter Parks Associates Press Release] (noting preliminary forecasts of several billion dollars in revenue for online gaming services in 2009). Further, total revenue from the video game and interactive entertainment industry, which includes online gaming, is expected to reach \$47 billion in 2009, up \$14 billion from 2006. Press Release, DFC Intelligence, DFC Intelligence Forecasts Video Game Market to Reach \$47 Billion by 2009 (Sept. 18 2007), <http://www.dfcint.com/wp/?p=189> (including in-home and portable video game hardware and software as well as offline and software online PC revenues).

B. Property in Different Types of Virtual Worlds: Social and Creative Environments and Combat and Collection Environments⁵⁷

Before identifying the possibility of trademark infringement in MMORPGs, it is helpful to first identify the types of virtual worlds that currently exist. Different virtual worlds can be categorized by the general activities that occur within those worlds. In social or creative environments, the primary purpose of play is to interact with other participants in ways that are similar to real-world interactions.⁵⁸ Second Life is one of the best examples of this type of creative virtual world.⁵⁹ In essence, Second Life is a virtual canvas with a pallet of software-based tools for the creation of user-generated content.⁶⁰ Participants use their avatars to create and build a variety of objects from materials known as “prims,” short for primitives.⁶¹ The avatars can move from place to place and interact with other players through their avatars in a simulated virtual world created by the participants themselves.⁶²

In many aspects, Second Life mirrors the real world.⁶³ Second Life’s virtual world has been the host of celebrity appearances, book signings, parties, and

⁵⁷ Several scholars make the distinction between virtual worlds designed for the purpose of social and creative expression and virtual worlds designed for the purpose of traditional gaming and combat. *See generally* DURANSKE, *VIRTUAL LAW*, *supra* note 2, at 5–6 (identifying three types of virtual worlds: (1) social virtual worlds, which include Second Life, There.com, Active Worlds, and the Sims Online; (2) traditional gaming worlds such as EverQuest II and Entropia Universe; and (3) virtual worlds for children, including the game Club Penguin); Candidus Dougherty & Greg Lastowka, *Virtual Trademarks*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 749, 757–73 (2008) (differentiating between game worlds where players progress from weak to powerful characters, such as City of Heroes, social worlds of informal play, such as the Sims Online, and user-generated worlds where players are invited to create the virtual environment, such as Second Life); Sheldon, *supra* note 49, at 756–57 (contrasting the themes of social interaction and creativity found in games such as Second Life with combat and collection found in games such as World of Warcraft).

⁵⁸ *See* Sheldon, *supra* note 49, at 756–57 (“Interaction in Second Life is often seen as either a substitute for or a complement to real-world interaction . . . [T]he other major activity in Second Life is creation.”).

⁵⁹ *See id.*

⁶⁰ *See* Dougherty & Lastowka, *supra* note 57, at 768.

⁶¹ Todd David Marcus, Note, *Fostering Creativity in Virtual Worlds: Easing the Restrictiveness of Copyright for User-Created Content*, 52 N.Y.L. SCH. L. REV. 67, 73 (2007–08) (explaining how these prims may be “fashioned together like a set of malleable Lego blocks” to become objects that make up the virtual landscape); Jacoby, *supra* note 8, at 7.

⁶² *See* Jacoby, *supra* note 8, at 7.

⁶³ *See id.* *See generally* Leonard T. Nuara, Daniel A. Feuerstein, Kristin M. Bohl & Claude W. Roxborough, III, *No Man is an Island, Not Even in a Virtual World*, in TECHNOLOGY AND ENTERTAINMENT CONVERGENCE 2008: BUSINESS AND LEGAL ISSUES FOR THE NEXT STAGE OF “TECHNOTAINMENT” 523, 535 (PLI Patents, Copyright, Trademarks, & Literary Prop. Course Handbook Series No. 943, 2008) (describing the experience of an avatar in the “computer-generated reality” of Second Life as it picks out its clothing for the first time).

political rallies.⁶⁴ Residents can buy virtual property such as clothes,⁶⁵ houses, and plots of land,⁶⁶ as well as conduct monetary transactions with Linden dollars—Second Life’s currency.⁶⁷ Linden dollars can be bought and sold in exchange for real U.S. dollars within Second Life’s exchange market.⁶⁸ Because Second Life gives its users free reign to control the appearance of their avatars and to create virtual property that becomes part of the environment, the possibility for trademark infringement is greater than in earlier games where control of the look and appearance of an avatar was limited.⁶⁹ Beyond that, Second Life is unique in that its residents own the intellectual property they create within the game, and Linden Labs encourages the use of its platform for brand promotion.⁷⁰

Virtual worlds can also exist to facilitate combat and collection. Ultima Online—released in 1997 by Electronic Arts—generally is credited with establishing fantasy games of this variety.⁷¹ World of Warcraft, produced by Blizzard, is considered to be one of the most popular types of combat and collection virtual worlds.⁷² Similar to traditional video games, the goal of Ultima Online and World of Warcraft is to explore the environment and defeat enemies.⁷³ As more enemies are defeated, the more power an avatar gains, and the more virtual property the player accumulates in the form of currency or special

⁶⁴ Sheldon, *supra* note 49, at 756.

⁶⁵ See Nuara et al., *supra* note 63 (“[An avatar] can find Prada clothing, a Rolex watch, a new pair of Nikes.”).

⁶⁶ See SL Purchasing Land, *supra* note 10 (listing the ways residents can acquire land).

⁶⁷ SL Economic Stats, *supra* note 4 (click “resident_transactions_by_amount.xls”) (noting the number of transactions conducted in Second Life over a given time period).

⁶⁸ SL Market Data, *supra* note 12 (listing market history data).

⁶⁹ See Dougherty & Lastowka, *supra* note 57, at 768 (noting the virtual world owner merely provides a blank canvass for users to create content); cf. DURANSKE, VIRTUAL LAW, *supra* note 2, at 149 (“In virtual worlds that allow unfettered scripting and building, particularly when a major brand has not chosen to enter the space, unauthorized use of real-world trademarks has proven too tempting for many designers to resist.”).

⁷⁰ SL TOS, *supra* note 35 (“[R]esidents retain copyright and other intellectual property rights, with respect to Content [they] create in Second Life, to the extent that [they] have such rights under applicable law.”) Press Release, Linden Lab, Second Life Residents to Own Digital Creations (Nov. 14, 2003), available at http://lindenlab.com/pressroom/releases/03_11_14.

Unlike traditional online game environments where anything created in-world is owned by the service provider, Second Life has responded to its residents’ desire to own their work just as they would any other original creations. Under these terms they can create, and sell derivative works based on content they’ve made, or license the work to others.

Id.

⁷¹ DURANSKE, VIRTUAL LAW, *supra* note 2, at 83; Brown, *supra* note 46, at 605–06.

⁷² See Jason Dobson, *World of Warcraft Hits 9 Million Subscribers*, GAMASUTRA, July 24, 2007, http://www.gamasutra.com/php-bin/news_index.php?story=14811; see also Sheldon, *supra* note 49, at 757.

⁷³ See World of Warcraft, *supra* note 41; Lady Mana, *supra* note 41.

items.⁷⁴ Unlike traditional video games, however, there is no “end” to the game after a player defeats the most difficult level.⁷⁵ Rather, the business model of Ultima Online, for example, is based on retaining customers indefinitely; therefore, players measure their success by comparing their earnings to that of other users.⁷⁶ Ultima Online is also notable because it was one of the first to allow players to transform resources into even more valuable items—for example, turning iron into armor.⁷⁷ The result is a thriving in-game economy and secondary market where valuable Ultima Online virtual property is traded, similar to virtual exchange markets that can be found today.⁷⁸

In contrast to Second Life, Blizzard, and Electronic Arts generate much of the content in World of Warcraft and Ultima Online respectively, and the user-generated content is limited mostly to avatar appearance and name.⁷⁹ Thus, because its players are limited to the thematic constraints of the virtual platform, combat and collection virtual worlds tend to be less susceptible to trademark infringement than social and creative worlds.

C. Buying and Selling Virtual Property

Trademark law seeks to protect marks “used in commerce,” thus, understanding the role virtual property has begun to play in either type of world is helpful.⁸⁰ Unlike the older video and arcade games of past decades where players attempted to score the most points, players seek virtual acquisitions of tools, weapons, property, and more within modern MMORPGs.⁸¹ Both gamers and entrepreneurs have established a commercial marketplace for buying and selling these valuable virtual assets in the real world.⁸² For example, Sony’s

⁷⁴ Sheldon, *supra* note 49, at 757.

⁷⁵ See DURANSKE, VIRTUAL LAW, *supra* note 2, at 83.

⁷⁶ *Id.* The typical areas for comparing success within the game include (1) the player’s ability to perform combat moves in the game, (2) the player’s knowledge of the game world, (3) the player’s characters’ social standing in various formal and ad hoc role-playing groups, (4) the statistical abilities (level) of the player’s characters, and, perhaps most of all, (5) the value of the player’s characters’ land and possessions.

Id.

⁷⁷ *Id.* These resources can include animals for food or domesticating, metals, and trees that can be chopped for lumber. *Id.*

⁷⁸ *Id.* at 83–85 (examining how the demand for resources led to one of the first secondary, real-world markets for Ultima Online virtual goods).

⁷⁹ See Dougherty & Lastowka, *supra* note 57, at 759–60 (describing lack of gamer control over the environment in games such as World of Warcraft).

⁸⁰ See 15 U.S.C. § 1051(a) (2006); see also Dougherty & Lastowka, *supra* note 57, at 751.

⁸¹ See Brown, *supra* note 46, at 606–07.

⁸² RAYSMAN ET AL., *supra* note 31, § 1.03(6); accord. Brown, *supra* note 46, at 607.

Station Exchange hosts a market where one can exchange real-world currency for virtual property.⁸³ The markets are operated either through the game itself, or in the real world on auction sites such as eBay.⁸⁴ As in any market, the value or price of virtual property is determined by the supply and the demand of the property.⁸⁵ In 2005, it was reported that one player paid \$100,000 for a virtual resort in the game Project Entropia.⁸⁶ The game, operated by MindArk, was the first major virtual world that facilitated the exchange of real-world currency for virtual property.⁸⁷ Thus, the market for virtual property has become an operable, self-sustaining entity, overseeing transactions worth over two billion dollars in real-world money as of March 2007.⁸⁸

The surge in the number of “virtual businesses” selling virtual items within games is yet another indicator of the success of the virtual market. As of February 2009, an estimated 64,000 business owners were operating within Second Life.⁸⁹ These owners operate a variety of businesses such as tattoo parlors,

⁸³ Sony’s Station Exchange is the official marketplace of real money trade for virtual items for EverQuest II players. *See generally* Station Exchange, <http://stationexchange.station.sony.com/livegamer.vm> (last visited Jan. 6, 2009).

⁸⁴ *See* RAYSMAN ET AL., *supra* note 31, § 1.03(6).

⁸⁵ *See id.*

⁸⁶ Daniel Terdiman, *Man Pays \$100,000 for Virtual Resort*, CNET NEWS, Nov. 10, 2005, http://news.cnet.com/Man-pays-100,000-for-virtual-resort/2100-1043_3-5945248.html. In explaining why he purchased the resort, a space station, the purchaser said he plans to make his money by opening up his new resort to lucrative hunting of beasts like kingfishers, vicious bird-like creatures that can easily kill players but that also sometimes drop armor worth \$500 in real cash. He also plans to lure hunters in with top-name DJs he thinks he will be able to pay with the proceeds from his hunter visitors.

Id. Apparently, skeptics question the validity of the purchase, theorizing that it was a publicity stunt by the publisher of the game. *Id.*

⁸⁷ Brown, *supra* note 46, at 607.

⁸⁸ *See* Posting of Tuukka Lehtiniemi to Virtual Economy Research Network, How Big Is the RMT Market Anyway, http://virtual-economy.org/blog/how_big_is_the_rmt_market_anyw (Mar. 3, 2007, 05:50 EST) (estimating the “real-money trade,” or the amount of trade of virtual items in real-money, to be worth over two billion dollars); *see also* Sean F. Kane, *Virtually Lawless: Legal and Economic Issues in Virtual Worlds*, in INFORMATION TECHNOLOGY LAW INSTITUTE 2008: NEW DIRECTIONS: SOCIAL NETWORKS, BLOGS, PRIVACY, MASH-UPS, VIRTUAL WORLDS AND OPEN SOURCE 553, 558–59 (PLI Patents, Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. 14617, 2008) (noting that transactions in the virtual market reached approximately \$1 billion in 2007, and citing expensive virtual market purchases, such as a virtual representation of Amsterdam in the game Second Life that sold for \$50,000 and a virtual island in Project Entropia that sold for \$30,000).

⁸⁹ SL Economic Stats, *supra* note 4 (click “resident_transactions_by_amount.xls”) (estimating the number of total unique business owners). Linden Labs estimates this number by using the positive monthly Linden flow (“PMLF”), which calculates the number of accounts with positive cash flow before monthly fees and real estate transactions. Daniel Terdiman, Number of “Profitable” Second Life Businesses Up 10 Percent in October, <http://entrepreneursguidetosecondlife.blogspot.com/2007/11/number-of-profitable-second->

private detective agencies, and nightclubs.⁹⁰ The market for these businesses is so lucrative that they are becoming the primary source of income for many players.⁹¹ In 2006, Ailin Graef—controlling an avatar named Anshe Chung—became the first person to earn a net-worth exceeding \$1 million from assets entirely within Second Life.⁹² The U.S. Congressional Joint Economic Committee in 2006 started to investigate whether the income of players who make a real-world income from virtual property should be taxed.⁹³

The strong demand for virtual property and its corresponding real-world value has led some individuals to use automated computer scripts to perform the same function over and over—such as defeating a monster—in order to acquire more game assets to sell.⁹⁴ Reports claim that approximately 100,000 young people in China have been hired to “work” in game-playing factories to acquire virtual property on behalf of gamers known as “farms.”⁹⁵ Others have resorted to crime.

In Japan, a student was arrested after programming his characters to “mug” others for virtual “ransack.”⁹⁶ In Korea, a special police force exists to investigate online crime in virtual worlds.⁹⁷ Companies have also been implicated. For example, Blizzard Entertainment, the World of Warcraft operator has sued a software application company that distributes an application automating game play.⁹⁸ To avoid legal issues, some online merchants have sought to pre-

life.html (Nov. 5, 2007, 12:42 EST).

⁹⁰ SL Business Opportunities, *supra* note 21 (listing categories of business opportunities within Second Life).

⁹¹ See Fortt, *supra* note 14; Anshe Chung Press Release, *supra* note 15.

⁹² Roger Parloff, *Anshe Chung: First Virtual Millionaire*, CNNMONEY.COM, Nov. 27, 2006, <http://money.cnn.com/blogs/legalpad/2006/11/anshe-chung-first-virtual-millionaire.html>.

⁹³ Press Release, Cong. of the U.S. Joint Econ. Comm., Virtual Economies Need Clarification, Not More Taxes (Oct. 17, 2006), *available at* <http://www.house.gov/jec/news/news2006/pr109-98.pdf>.

⁹⁴ See RAYSMAN ET AL., *supra* note 31, § 103(6); Benjamin Duranske, *Hernandez v. IGE Settles, IGE U.S. Confirms It Will Not “Engage in the Selling of WoW Virtual Property or Currency” for Five Years; Class Action Still Possible*, VIRTUALLY BLIND, Aug. 27, 2008, <http://virtuallyblind.com/2008/08/27/hernandez-ige-settles/> (last visited Oct. 12, 2008); *see also* Benjamin Duranske, *MDY Agrees to Pay Blizzard \$6M in Damages in World of Warcraft Bot Lawsuit, Pending Appeal*, VIRTUALLY BLIND, Sept. 29, 2008, <http://virtuallyblind.com/2008/09/29/mdy-blizzard-damages>.

⁹⁵ David Barboza, *Ogre to Slay? Outsource It to Chinese*, N.Y. TIMES, Dec. 9, 2005, at A1.

⁹⁶ Will Knight, *Computer Characters Mugged in Virtual Crime Spree*, NEW SCIENTIST, Aug. 18, 2005, <http://www.newscientist.com/article.ns?id=dn7865>.

⁹⁷ Michelle Levander, *Where Does Fantasy End?*, TIME (Asia), Jun. 4, 2001, *available at* http://www.time.com/time/interactive/entertainment/gangs_np.html (describing new police cybercrime units in Korea, “founded after authorities were deluged with complaints from Lineage gamers”).

⁹⁸ *Case Update: MDY Industries, LLC v. Blizzard Entertainment, Inc. et al*, PATENT

vent or limit the sale of virtual goods.⁹⁹ eBay, for instance, has banned and de-listed auctions for virtual property on its site, aside from those related to the game Second Life.¹⁰⁰ One company, Electronic Arts, allows its players to purchase additional property for the game Ultima Online through its own site, but discourages the purchase of virtual assets from outside vendors in its End User License Agreement (“EULA”).¹⁰¹

D. Owning and Retaining Virtual Property

The exchange of virtual property for real-world currency has led to extensive debate over what laws should govern these assets, including who has the right to possession and the legal duty to compensate for loss.¹⁰² The basic argument in favor of acknowledging virtual property rights is that virtual property is valuable to the player and it is so closely aligned with society’s definition of property as to necessitate some protection.¹⁰³ The basic argument in opposition is that virtual worlds better serve their primary purpose as creative,

ARCADE, Aug. 27, 2007, <http://www.patentarcade.com/2007/08/case-update-mdy-industries-llc-v.html> (“Blizzard argued that it is entitled to an injunction and money damages against MDY based on, among other things, copyright infringement, trademark infringement, and trafficking in technology designed for the purpose of circumventing copyright protection systems in violation of the [Digital Millennium Copyright Act].”).

⁹⁹ Daniel Terdiman, *eBay Bans Auctions of Virtual Goods*, CNET NEWS, Jan. 29, 2007, http://news.cnet.com/eBay-bans-auctions-of-virtual-goods/2100-1043_3-6154372.html (providing the possible reasons why eBay decided to de-list the sale of virtual goods, including fraud).

¹⁰⁰ *Id.*

¹⁰¹ See RAYSMAN ET AL., *supra* note 31, § 103(6). However, these particular terms no longer appear to be present in the most recent Terms of Service. Electronic Arts, Online Privacy Policy and Terms of Service, Aug. 22, 2008, <http://legal.ea.com/legal/legal.jsp?language=en>.

¹⁰² See DURANSKE, VIRTUAL LAW, *supra* note 2, at 79 (explaining that the application of property law to virtual worlds is controversial because a “user cannot be guilty of [many virtual crimes] unless the victim had a right to the property in question in the first place”); Marcus, *supra* note 61, at 68–69 (noting the uncertainty of copyright law to virtual property); Shari Claire Lewis, *Where the Law Stands on Virtual Property*, LEGAL TECHNOLOGY, Mar. 28, 2008, <http://www.law.com/jsp/legaltechnology/pubArticleLT.jsp?id=1206614810253> (discussing the ambiguity of the law as applied to virtual property); Tom Loftus, *Virtual Worlds Wind Up in Real Courts*, MSNBC.COM, Feb. 7, 2005, <http://www.msnbc.msn.com/id/6870901/> (discussing the role of law on virtual property); Michael Schneider, *Virtual Property Law—Game Law Series Part III*, THIS IS TECH, July 28, 2008, <http://www.thisistech.com/2008/07/28/virtual-property-law-game-law-series-part-iii/> (discussing who owns player-created intellectual property and which laws should apply).

¹⁰³ See F. Greg Lastowka & Dan Hunter, *The Laws of the Virtual Worlds*, 92 CAL. L. REV. 3, 49 (2004) (analyzing the basic framework for the arguments in favor of recognizing formal rights to virtual property: virtual goods are valuable to consumers and match society’s definitions of “property” in most ways); DURANSKE, VIRTUAL LAW, *supra* note 2, at 80–81.

social, and experimental platforms if left as play spaces free from the commoditization of virtual property.¹⁰⁴ Alternatively, another argument against acknowledging a player's rights in virtual property is that the rights to ownership stem from the code that underlies the data.¹⁰⁵ Thus, if the display is a picture, the owner of the code is the owner of the picture, and without the code that underlies the picture there can be no real protection.¹⁰⁶ In this way, gaming companies control ownership of pieces of the game.

At the heart of the debate over virtual property possession are the gamers and gaming companies who have invested time and money to retain these rights. Gamers feel that they should be protected from theft of their virtual property because they spend real-world money and time to acquire them.¹⁰⁷ They claim they suffer real loss from the destruction of their virtual property, and therefore deserve protection under the law.¹⁰⁸ Gaming companies, on the other hand, are concerned with the extent of their own liability to the player if virtual property rights are recognized.¹⁰⁹ They fear having to compensate for loss of possession when the company chooses to discontinue the game or a player's account is hacked.¹¹⁰ Regardless, currently no laws exist in the United States that explicitly deal with this issue or the matter of virtual property within

¹⁰⁴ See RICHARD A. BARTLE, PITFALLS OF VIRTUAL PROPERTY 9–10 (2004), available at <http://www.themis-group.com/uploads/Pitfalls%20of%20Virtual%20Property.pdf> (noting that the acceptance of virtual property requires owners to become custodians concerned with retaining the value of the property rather than being able to create property without concern for its value); DURANSKE, VIRTUAL LAW, *supra* note 2, at 82.

¹⁰⁵ Brown, *supra* note 46, at 612–14 (“[T]he display of a picture (such as a magical sword) without the underlying software-based attributes would have no real value worthy of protection.”).

¹⁰⁶ *Id.*

¹⁰⁷ RAYSMAN ET AL., *supra* note 31, § 103(6).

Individual players of MMORPGs often feel that the time and money spent to acquire virtual property is substantial enough to warrant legal protection for these items. Some gamers maintain that playing the games comprising these virtual worlds can involve at least as much effort as real world work, with many players spending a substantial amount of real world money to improve their avatars in the virtual world.

Id.; see Brown, *supra* note 46, at 612–13. *But see* Raph Koster, *Investing Time and Money in Virtual Worlds: Caveat Emptor*, VENTUREBEAT, Nov. 22, 2006, <http://venturebeat.com/2006/11/22/investing-time-and-money-in-virtual-worlds-caveat-emptor> (arguing that the cost of creating content has risen but the value has dropped because that content is not protectable property).

¹⁰⁸ See RAYSMAN ET AL., *supra* note 31, § 103(6).

¹⁰⁹ *Id.* Gaming companies “fear that if players are given legal interest in virtual property, their profits will be depleted by an influx of demands for restoration of property or compensation for permanent losses.” *Id.*

¹¹⁰ See *id.* (noting that if hackers resell illegally acquired virtual property, “they often prevent dedicated players from being able to acquire or keep these assets through play alone. These acts potentially could make the virtual economy unstable and wipe out virtual fortunes, which might leave the game companies responsible for compensating their players.”).

virtual worlds.¹¹¹

Second Life has attempted to eliminate some of the speculation by expressly stating in its Terms of Service (“TOS”) that its residents “retain any and all applicable copyright and other intellectual property rights with respect to any Content [they] create using the Service, to the extent [they] have such rights under applicable law.”¹¹² This demonstrates a slight change from Second Life’s previous position, which emphasized that property rights are “enforceable and applicable both in-world and offline, both for non-profit and commercial ventures. You create it, you own it—and it’s yours to do with as you please.”¹¹³ While this clarification might help Second Life avoid litigation by leaving the status of property rights ambiguous, it creates more questions than it answers. If the seller of a “Rolex” watch in the virtual world retains “full intellectual property protection” for the product it has created, is it protected when the real-world Rolex Company decides to establish itself in the same virtual world? Could the real-world Rolex Company succeed in a claim that it has priority of use over the Rolex mark in virtual retail? Who retains intellectual property rights?

III. IMPLICATING VIRTUAL TRADEMARK INFRINGEMENT

Creation in virtual worlds can implicate various forms of intellectual property rights. Given the number of virtual businesses using real-world marks for virtual products, trademark inevitably is implicated.¹¹⁴ A trademark is “any word, name, symbol, or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”¹¹⁵ One type of trademark frequently appearing in online games or videos is trade dress.¹¹⁶ Trade dress involves the

¹¹¹ *Id.*

¹¹² SL TOS, *supra* note 35.

¹¹³ Deborah Wilcox, “*Inline*” *Intellectual Property Raises Legal Issues*, Feb. 15, 2007, WTN NEWS, <http://wistechology.com/articles/3703/> (quoting an older version of Second Life’s Web site).

¹¹⁴ See DURANSKE, *VIRTUAL LAW*, *supra* note 2, at 150–51.

¹¹⁵ 15 U.S.C. § 1127 (2006); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 (1995) (defining a trademark as a “word, name, symbol, device, or other designation . . . used in a manner that identifies . . . goods or services and distinguish[es] them from goods or services of others.”).

¹¹⁶ See, e.g., *E.S.S. Entm’t 2000, Inc. v. Rock Star Videos, Inc.*, 444 F. Supp. 2d 1012, 1014, 1018 (C.D. Cal. 2006) (discussing a case in which the designer of the game *Grand Theft Auto* based several game scenes on a real-world trademark of a well-known Los Angeles strip club); *Sherwood 48 Assocs. v. Sony Corp. of Am.*, 213 F. Supp. 2d 376, 377 (S.D.N.Y. 2002) (discussing a case in which the owners of several Times Square buildings sued Sony for its use of their buildings in the movie *Spiderman*).

total image of a product, including its related arrangement of characteristics or decoration that is intended to make the product source-identifying and promote its sale.¹¹⁷ Standard trademark laws govern the protection of trade dress.¹¹⁸

Trademark law in the United States seeks to enforce protections with two primary goals: (1) to protect the public from confusion so that “it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and which it wants to get;” and (2) to protect the goodwill by ensuring that “where the owner of a trademark has spent energy, time and money in presenting to the public the product, he is protected in his investment from its misappropriation.”¹¹⁹ Thus, both goals work together to preserve investment in the creation of trademarks by discouraging unfair competition.

Brands are among the most easily identifiable and consumer-friendly trade symbols in the marketplace.¹²⁰ They assist the consumer in a multitude of ways: “they communicate the features and benefits of a product,” “help the consumer avoid risk,” and reduce the consumer’s economic costs of searching for a product.¹²¹ Similarly, because brands are so ingrained in consumers’ minds, they incentivize owners to meet a consistent level of production quality.¹²² Brands are invaluable to companies because they open channels of trade and build a base of loyal consumers.¹²³ Consistent with trademark policy, brands are protected in society to help both the consumer and the mark owner.¹²⁴ The virtual world is no exception—courts repeatedly have recognized that digital creations designed on a virtual platform are capable of trademark protection.¹²⁵

¹¹⁷ See 74 AM. JUR. 2D *Trademarks and Tradenames* §§ 38–39 (2001).

¹¹⁸ *Id.* § 38.

¹¹⁹ S. REP. NO. 79-1333, at 3 (1946).

¹²⁰ See *Exploring the Links between Brand Name and Consumer Identity*, KNOWLEDGE@WHARTON, Nov. 6, 2002, <http://knowledge.wharton.upenn.edu/article.cfm?articleid=659> (noting that through use of brand, a company creates a higher likelihood of consumer source-identification).

¹²¹ See Jerre B. Swann, *Dilution Redefined for the Year 2002*, 92 TRADEMARK REP. 585, 586–618 (2002), reprinted in GRAEME B. DINWOODIE & MARK D. JANIS, *TRADEMARKS AND UNFAIR COMPETITION* 19 (2d ed. 2007).

¹²² See *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942) (“If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants.”).

¹²³ See Swann, *supra* note 121, at 19.

¹²⁴ See S. REP. NO. 79-1333, at 3 (1946).

¹²⁵ See, e.g., *MDY Indus., LLC v. Blizzard Entm’t*, No. CV-06-2555-PHX-DGC, 2009 WL 223631, at *10–12 (D. Ariz. Jan. 28, 2009) (holding the operator of a software program that allowed users to play the popular online game *World of Warcraft* while the user was away from their computer liable for violating the copyrights of *World of Warcraft*); see also Complaint ¶ 1, *Eros, LLC v. Simon* (E.D.N.Y. 2007) (No. 07 Civ. 4447) [hereinafter *Eros Complaint*], available at <http://www.citmedialaw.org/sites/citmedialaw.org/files/2007-10->

For these reasons, courts seek to enforce trademark law to protect consumers from confusion, to prevent dilution and tarnishment of a company's mark, and to encourage fair use where it is due. This section analyzes how each of these trademark principles is implicated in virtual worlds.

A. Confusion

The Lanham Act states that a person shall be held liable who "uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact . . . likely to cause confusion . . . as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person"¹²⁶ Thus, courts consider "likelihood of confusion" as a factor in determining trademark infringement.¹²⁷

The test used by various courts for "likelihood of confusion" differs from circuit to circuit,¹²⁸ but most consider variations of the following three factors: (1) intent of the defendant; (2) evidence of whether actual confusion exists; and (3) similarity of the marks in question.¹²⁹ These factors must support the

24-Eros%20Complaint.pdf (explaining that defendant intentionally passed off thousands of unauthorized copies of plaintiff's virtual products as genuine products, and thereby infringed upon plaintiff's trademark rights); *Eros, LLC v. Simon*, No. 07 Civ. 4447, slip op. at 1-2 (E.D.N.Y. 2008)), available at [http://www.citmedialaw.org/sites/citmedialaw.org/files/2008-01-03-Judgment by Consent as to Simon.pdf](http://www.citmedialaw.org/sites/citmedialaw.org/files/2008-01-03-Judgment%20by%20Consent%20as%20to%20Simon.pdf) (entering a judgment by consent whereby the plaintiff was compensated for defendant's intentional unauthorized copying of plaintiff's virtual products).

¹²⁶ Lanham Act, 15 U.S.C. § 1125(a) (2006).

¹²⁷ See 74 AM. JUR. 2D *Trademarks and Tradenames* § 86 (2001 & supp.).

¹²⁸ See, e.g., *Austl. Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1239-40 (10th Cir. 2006); *CareFirst of Md., Inc. v. First Care, P.C.*, 434 F.3d 263, 267-68 (4th Cir. 2006); *Frosty Treats Inc. v. Sony Computer Entm't Am., Inc.*, 426 F.3d 1001, 1008 (8th Cir. 2005); *Auto-Zone, Inc. v. Tandy Corp.*, 373 F.3d 786, 792-93 (6th Cir. 2004); *Dippin' Dots, Inc. v. Frosty Bites Distrib., L.L.C.*, 369 F.3d 1197, 1207 (11th Cir. 2004); *KOS Pharm., Inc. v. Andrx Corp.*, 369 F.3d 700, 709 (3rd Cir. 2004); *Playtex Prods., Inc. v. Georgia-Pac. Corp.*, 390 F.3d 158, 162 (2d Cir. 2004); *Scott Fetzer Co. v. House of Vacuums, Inc.*, 381 F.3d 477, 484-85 (5th Cir. 2004); *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 461-62 (7th Cir. 2000); *Keds Corp. v. Renee Int'l Trading Corp.*, 888 F.2d 215, 222 (1st Cir. 1989); *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979); *Partido Revolucionario Dominicano Seccional Metropolitana de Wash.-D.C., Md., y Va. v. Partido Revolucionario Dominicano, Seccional de Md. y Va.*, 312 F. Supp. 2d 1, 14 (D.D.C. 2004); *Palm Bay Imp., Inc. v. Veuve Clicquot Ponsardin Masion Fondée en 1772*, 396 F.3d 1369, 1371 (Fed. Cir. 2005).

¹²⁹ See, e.g., *Austl. Gold, Inc.*, 436 F.3d at 1239 (listing "degree of similarity between the marks," the intent of infringer, and "evidence of actual confusion" as the first three factors to consider); *CareFirst of Md., Inc.*, 434 F.3d at 267 (listing the "similarity of the two marks," "the defendant's intent," and "actual confusion" as factors); *Frosty Treats Inc.*, 426 F.3d at 1008 (listing "the similarity between the owner's mark and the alleged infringer's mark," "the alleged infringer's intent to 'pass off' its goods as those of the trademark

probability of confusion—"not a mere possibility"—which exists when a large number of consumers are likely to be confused as to the source of a good.¹³⁰

1. *Intent of the Defendants*

Intent plays an important role in determining trademark infringement.¹³¹ If a defendant "knowingly adopted plaintiff's tradename with the intent of deriving benefit from plaintiff's reputation and advertising, that intent is highly persuasive evidence of a confusing similarity."¹³² The presumption is that if a defendant copied another's mark knowingly, the intent was to infringe.¹³³ Use alone is insufficient to establish intent to infringe; instead, "[t]he proper focus is whether [the] defendant had the intent to derive benefit from the reputation or

owner," and "incidents of actual confusion" as factors); *AutoZone, Inc.*, 373 F.3d at 792–93 (listing the "similarity of the marks," the "evidence of actual confusion," and the "intent of [the defendant] in selecting the . . . mark" as factors); see also 74 AM. JUR. 2D *Trademarks and Tradenames* § 86 (2001) (listing the "degree of similarity," the "intent of the alleged infringer," and "evidence of actual confusion" as the first three factors to consider). For a chart of the "likelihood of confusion" tests generally invoked by the courts and derived from leading cases in the respective circuits, see DINWOODIE & JANIS, *supra* note 121, at 480 fig.7–1. A typical set of factors can be found in the case of *Polaroid Corp. v. Polarad Electronics Corp.*, which stated the factors as:

[1] the strength of his mark, [2] the degree of similarity between the two marks, [3] the proximity of the products, [4] the likelihood that the prior owner will bridge the gap, [5] actual confusion, and [6] the reciprocal of defendant's good faith in adopting its own mark, [7] the quality of defendant's product, and [8] the sophistication of the buyers.

Polaroid Corp. v. Polarad Elec. Corp., 287 F.2d 492, 495 (2d Cir. 1961).

¹³⁰ *Streetwise Maps, Inc. v. VanDam, Inc.*, 159 F.3d 739, 743 (2d Cir. 1998); *Estee Lauder Inc. v. The Gap, Inc.*, 108 F.3d 1503, 1510 (2d Cir. 1997); see 74 AM. JUR. 2D *Trademarks and Tradenames* § 86.

¹³¹ See *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 203 (5th Cir. 1998) ("If a mark was adopted with the intent to confuse the public, that alone may be sufficient to justify an inference of a likelihood of confusion."); see also *Conversive, Inc. v. Conversagent, Inc.*, 433 F. Supp. 2d 1079, 1093 (C.D. Cal. 2006) (finding that alleged infringer's intent in adopting the mark weighed in favor of a finding that the mark infringed plaintiff's trademark because the alleged infringer knew about plaintiff's trademark before adopting his own); 74 AM. JUR. 2D *Trademark and Tradenames* § 88 ("If an alleged infringer adopted its mark for the purpose of deriving benefit from another's existing mark, this intent weighs firmly in the original user's favor in a trademark infringement action . . .").

¹³² *Howard Clothes, Inc. v. Howard Clothes Corp.*, 52 N.W.2d 753, 758–59 (Minn. 1952).

¹³³ See *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 263 (5th Cir. 1980) (noting that the intent to derive benefit from another's mark may be sufficient to infer that there is a confusing similarity); RESTATEMENT (FIRST) OF TORTS § 729 cmt. f (1938); ("But if he adopts his designation with the intent of deriving benefit from the reputation of . . . [the others mark] his intent may be sufficient to justify the inference that there is confusing similarity"); 74 AM. JUR. 2D *Trademarks and Tradenames* § 88 (stating that knowing a trademark exists makes a presumption of an intent to deceive).

goodwill of plaintiff.”¹³⁴ If any “evidence indicates [the] defendant did not intend to derive benefit from the plaintiff’s existing mark, this factor weighs against the likelihood of confusion.”¹³⁵ Yet, “proof of defendant’s good faith and lack of intention to confuse the public is merely one factor to be considered in weighing the issue of likelihood of confusion.”¹³⁶

In the Jolex hypothetical—where Jolex exists as a virtual brand only—it is likely that Sammy, the alleged infringer, knew the brand existed and was trying to derive benefit from the reputation of Jolex as a well-established and prestigious watch. Thus, he tried to derive benefits from Jolex’s goodwill; this factor would weigh in favor of a finding of likelihood of confusion.¹³⁷ There is also some support that a court would find a likelihood of confusion exists where the intent of a defendant was to derive benefit from the *reputation* of another’s virtual mark.¹³⁸

However, it is unclear what weight intent carries in a situation where a real-world Jolex brand exists and a virtual store, such as Sammy’s, opens to sell virtual Jolex products. Even if Sammy knows the mark already exists in the real world, it is not certain whether Jolex can show that Sammy used the mark with bad faith intent. In this case, intent may weigh less in determining “likelihood of actual confusion” relative to other considerations, such as market factors. If the mark is used to derive benefit from the goodwill of the real-world company for commercial purposes—and not merely for an expressive purpose—it is likely that intent will weigh more heavily in favor of likelihood of confusion. For example, if Sammy were to design free virtual Jolex watches for the sole purpose of enhancing avatar outfit options, a court might find that he is using the mark for merely expressive purposes. Because Sammy is selling virtual Jolex watches for profit, however, a court may find that he is attempting to derive benefit from the goodwill of the real-world company Jolex.

¹³⁴ *Jordache Enter., Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1485 (10th Cir. 1987); see *Universal Money Ctrs., Inc. v. AT&T Co.*, 22 F.3d 1527, 1532 (10th Cir. 1994); see also *Elvis Presley Enters., Inc.*, 141 F.3d at 203.

¹³⁵ *Heartsprings, Inc. v. Heartspring, Inc.*, 143 F.3d 550, 556 (10th Cir. 1998); accord. *First Sav. Bank, F.S.B. v. First Bank Sys., Inc.*, 101 F.3d 645, 655 (10th Cir. 1996).

¹³⁶ J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:108 (4th ed. 2008).

¹³⁷ See *Heartsprings, Inc.*, 143 F.3d at 556.

¹³⁸ See *Howard Clothes, Inc. v. Howard Clothes Corp.*, 52 N.W.2d 753, 758–59 (Minn. 1952). Compare *Eros Complaint*, *supra* note 125, ¶ 1–2 (alleging that Thomas Simon through his avatar, Rase Kenzo, infringed the plaintiffs’ trademarks and copyrights by selling unauthorized copies of plaintiffs virtual products), with *Eros, L.L.C. v. Simon*, No. 07 civ. 4447, slip op. at 1–2 (E.D.N.Y. 2008), available at [http://www.citmedialaw.org/sites/citmedialaw.org/files/2008-01-03-Judgment by Consent as to Simon.pdf](http://www.citmedialaw.org/sites/citmedialaw.org/files/2008-01-03-Judgment%20by%20Consent%20as%20to%20Simon.pdf) (settling the dispute by having Thomas Simon pay the plaintiffs restitution, destroying all unauthorized copies of the plaintiffs’ virtual properties, and cooperating with the plaintiffs).

2. Similarity of the Marks in Question

The similarity of the marks in question as a factor in likelihood of confusion looks beyond intent, to whether the defendant's use of the mark is confusingly similar to the trademark.¹³⁹ Before the adoption of the current trademark legislation in 1946,¹⁴⁰ the Supreme Court explained,

Where a party has been in the habit of labeling his goods with a distinctive mark, so that purchasers recognize goods thus marked as being of his production, others are debarred from applying the same mark to goods of the same description, because to do so would in effect represent their goods to be of his production and would tend to deprive him of the profit he might make through the sale of the goods which the purchaser intended to buy.¹⁴¹

Accordingly, a person is prohibited from using a mark that is similar to another's mark for the same product when doing so would be misrepresentative. The *Third Restatement of Unfair Competition* lists the following factors in analyzing the similarity of two marks: "(i) the overall impression created by the [marks];" "(ii) the pronunciation of the [marks];" "(iii) the translation of any foreign words contained in the [mark] pictures, illustrations, or [marks];" and "(v) the suggestions, connotations, or meanings of the [marks]."¹⁴² However, a finding of exact similarity between the two marks is not required.¹⁴³

In the Jolex example, the court would first look to the similarity in the total appearance of the Jolex watches, as compared to watches sold by Sammy. While individual features might be dissimilar, if the total effect conveys an impression of similarity, then this will weigh towards the likelihood of confu-

¹³⁹ See, e.g., *AutoZone, Inc. v. Tandy Corp.*, 373 F.3d 786, 795 (6th Cir. 2004) (noting that, in comparing the two trademarks, the objective is to determine if the public would be confused by their similarities based upon a general impression or recollection of the two marks and not having the two marks to compare); *KOS Pharm., Inc. v. Andrx Corp.*, 369 F.3d 700, 712–13 (3rd Cir. 2004) (stating that the test of similarity is meant to determine whether the marks "create the same overall impression when viewed separately" (quoting *Fisons Horticulture, Inc. v. Vigoro Indus., Inc.*, 30 F.3d 466, 477 (3d Cir. 1994)); see also *CareFirst of Md., Inc. v. First Care, P.C.*, 434 F.3d 263, 271–72 (4th Cir. 2006) (discussing the similarity between the *CareFirst* and *First Care* marks); *Frosty Treats Inc. v. Sony Computer Entm't Am., Inc.*, 426 F.3d 1001, 1008–09 (8th Cir. 2005) (analyzing why there is no similarity between the *Safety Clown* mark and the *Frosty Treats*' vans trade dress and the *Twisted Metal* games); *Playtex Prods., Inc. v. Georgia-Pac. Corp.*, 390 F.3d 158, 164–65 (2d Cir. 2004) (discussing why *Moist-Ones* is not similar enough to *Wet Ones* to be confusingly similar); *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 461–62 (7th Cir. 2000) (discussing the similarity in the marks *Prozac* and *Herbrozac*). But see *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 350–52 (9th Cir. 1979) (warning against equating likelihood of confusion with similarity of the marks, and noting that the similarity is only a foundational fact as to whether a mark is confusingly similar).

¹⁴⁰ Lanham Act, Pub. L. No. 79-489, 60 Stat. 440 (1946).

¹⁴¹ *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916).

¹⁴² RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21(a) (1995).

¹⁴³ MCCARTHY, *supra* note 136, § 23:20.

sion factor.¹⁴⁴ Therefore, if a watch sold by Sammy has the total effect of conveying an impression of similarity to a Jolex watch, a court might find them to be confusingly similar.

Second, if the mark refers to the brand name of a product, the pronunciation of its brand name may also play a role in determining similarity.¹⁴⁵ Pronunciation as a factor in similarity may exist despite differences in spelling or appearance.¹⁴⁶ If Sammy attempted to sell “JolX” watches, a court might thus find that the two pronunciations are confusingly similar even if they are visually distinguishable.¹⁴⁷

Next, the court looks to the verbal translation of the pictures or designs involved.¹⁴⁸ The word “Pegasus,” for example, as used by an oil trading company for its mark, was found to infringe upon the Mobil Oil trademark of a “flying horse” design.¹⁴⁹ Analogously, a watch retailer using the words “Pocket Watch” as a trademark for its watches could be found to infringe upon a Jolex trademark of a pocket watch design.

Lastly, suggestion may also play a part in determining similarity.¹⁵⁰ That is, if the image or phrase is meant to invoke a comparable response from the user it is similar. A company making a suggestion to prospective consumers, such as “Jolex—watches for a lifetime” may be confusingly similar to a different company making a suggestion such as “Molex—watches made to last a lifetime.”

A similarity between the marks in question in a virtual setting will weigh heavily on whether there is a likelihood of confusion.¹⁵¹ If, however, the marks

¹⁴⁴ See *id.* § 23:25.

¹⁴⁵ See *Syntex Lab., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 569 (2d Cir. 1971) (noting that the trial judge found two medications were likely to be confused if the prescriptions were written, because of physicians’ illegible style, or if they were telephoned, because of the phonetic similarities); see also *Saks & Co. v. Hill*, 843 F. Supp. 620, 624 (S.D. Cal. 1993) (finding that the consignment shop’s mark, Sacks Thrift Avenue, was confusingly similar to the department store’s mark, Saks Fifth Avenue).

¹⁴⁶ MCCARTHY, *supra* note 136, § 23:22.

¹⁴⁷ *Id.* (“Marks may sound the same to the ear, even though they may be readily distinguishable to the eye. For example, S.O. and ESSO may be visually distinguishable, but to the ear they are identical.”).

¹⁴⁸ See, e.g., *Squirrel Brand Co. v. Green Gables Inv. Co.*, 223 U.S.P.Q. (BNA) 154, 155 (T.T.A.B. 1984) (“It is established that where a mark comprises a representation of an animal or individual and another mark consists of the name of that animal or individual, such designations are to be regarded as legal equivalents in determining likelihood of confusion under the Trademark Act.”); *Beer Nuts, Inc. v. Clover Club Foods Co.*, 805 F.2d 920, 925 (10th Cir. 1986) (“[M]arks may be confusingly similar if, as entities, they look or sound similar or convey the same idea or meaning.”).

¹⁴⁹ *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 255 (2d Cir. 1987).

¹⁵⁰ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21 cmt. d (1995).

¹⁵¹ MCCARTHY, *supra* note 136, § 23:20.50.

If the marks are very similar, it is “only necessary that there be a viable relationship be-

are almost identical, a potential plaintiff will more easily be able to show likelihood of confusion by demonstrating actual confusion.

3. Actual Confusion

Evidence that demonstrates actual confusion is the most persuasive factor in finding a likelihood of confusion; but it can be difficult to prove.¹⁵² When examining evidence of actual confusion, courts focus on whether an allegedly infringing mark creates a “likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question.”¹⁵³ Thus, a defendant could be held liable for infringement when the plaintiff shows that consumers are confused as to the origin of a product, or if it is plausible that a consumer could be misled into believing the plaintiff sponsored or otherwise approved the defendant’s use.¹⁵⁴ Recognizing the difficulty of securing evidence of actual confusion,¹⁵⁵ courts have allowed plaintiffs to rely on consumer surveys or testimony.¹⁵⁶ In the running example, Jolex may be able to show—through consumer surveys or tes-

tween the goods or services in order to support a holding of likelihood of confusion.” If the marks are identical, then the degree of similarity between the parties’ goods or services can be quite large and there will still be a likelihood of confusion.

Id. (citations omitted).

¹⁵² See *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 203 (5th Cir. 1998) (noting that evidence of actual confusion “is nevertheless the best evidence of a likelihood of confusion.” (quoting *Amstar Corp. v. Domino’s Pizza, Inc.*, 615 F.2d 252, 263 (5th Cir. 1980))); *AMF, Inc. v. Steelcraft Boats*, 599 F.2d 341, 352 (9th Cir. 1979) (“Proving actual confusion is difficult”); see also *Resorts of Pinehurst, Inc. v. Pinehurst Nat’l Corp.*, 148 F.3d 417, 422–23 (4th Cir. 1998) (implying substantial evidence of actual confusion supports a finding of summary judgment for trademark infringement); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 23 cmt. b (1995) (“[T]he existence of actual confusion is direct evidence that in the market context of their actual use the similarities between the two designations are sufficient to create confusion. . . . [C]onvincing evidence of substantial actual confusion is ordinarily decisive.”).

¹⁵³ *Hormel Foods Corp. v. Jim Henson Prod., Inc.*, 73 F.3d 497, 502 (2d Cir. 1996).

¹⁵⁴ See *Elvis Presley Enters., Inc.*, 141 F.3d at 193.

¹⁵⁵ *Harold F. Ritchie, Inc. v. Chesebrough-Pond’s, Inc.*, 281 F.2d 755, 761 (2d Cir. 1960) (explaining that proof of actual confusion is “practically almost impossible to secure”).

¹⁵⁶ See *Smith v. Wal-Mart Stores, Inc.*, 537 F. Supp. 2d 1302, 1317 (N.D. Ga. 2008) (“A claimant may present anecdotal evidence of marketplace confusion, and surveys, when appropriately and accurately conducted and reported, are also widely and routinely accepted as evidence of actual confusion.”); see also *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons*, 365 F. Supp. 707, 716 (S.D.N.Y. 1973) (finding actual confusion where strong statistical evidence of the likelihood of confusion between two brands of pianos was revealed by two consumer surveys); *Schering Corp. v. Pfizer Inc.*, 189 F.3d 218, 225 (2d Cir. 1999) (“Surveys are, for example, routinely admitted in trademark and false advertising cases to show actual confusion, genericness of a name or secondary meaning, all of which depend on establishing that certain associations have been drawn in the public mind.”).

timony—that consumers purchased watches from Sammy because they thought the watches were actual Jolex watches.

B. Dilution

Dilution is important in the application of trademark law to virtual property because it grants protection to famous marks, even in the absence of confusion, permitting the owner of a mark to seek injunctive relief.¹⁵⁷ Dilution occurs when a defendant's continuous use of a mark is similar to a plaintiff's and the similarity adversely affects the plaintiff's mark by making it less source-identifying.¹⁵⁸ The goals underlying dilution theory are to eliminate any risk of public confusion as to the sponsorship or endorsement of a product and to prevent a mark from diminishing in distinctiveness and effect to the point where it is no longer enforceable.¹⁵⁹

Because a company finding its mark used in a virtual platform may have a hard time proving actual confusion, it might seek relief granted by the Trademark Dilution Revision Act ("TDRA").¹⁶⁰ Under the TDRA, Congress distinguished dilution by blurring from dilution by tarnishment. Dilution by blurring is an infringement upon a distinctive mark that "impairs the distinctiveness of the famous mark."¹⁶¹ Dilution by tarnishment is an infringement "that harms the reputation of the famous mark."¹⁶²

Even prior to the enactment of the TDRA, the courts bifurcated the analysis of dilution: inquiring whether the infringing mark blurred the identity of a product,¹⁶³ or tarnished the affirmative associations a mark has come to con-

¹⁵⁷ 15 U.S.C. § 1125(c)(1) (2006) (defining a famous mark as one "that is distinctive, inherently or through acquired distinctiveness").

¹⁵⁸ See LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 22:13 (4th ed. 2008).

¹⁵⁹ *Id.*

¹⁶⁰ Trademark Dilution Revision Act of 2006, Pub. L. No. 109-312, 120 Stat. 1730, 1730-32 (codified at 15 U.S.C. § 1125(c) (2006 & supp.)). The Trademark Law Revision Act of 1988 created the actual cause of action for infringement. Trade Mark Law Revision Act of 1988, Sec. 133, Pub. L. 100-667, 1988 Stat. 1883, 1993 (codified at 15 U.S.C. § 1125(a) (2006)). Congress then modified the remedy specifically for dilution in 1995, finally settling on the current remedy in 2006. See Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985, 985-86 (1996); Trademark Dilution Revision Act of 2006, 120 Stat. at 1730-32.

¹⁶¹ 15 U.S.C. § 1125(c)(2)(B).

¹⁶² *Id.* § 1125(c)(2)(C).

¹⁶³ See, e.g., *Toys "R" Us, Inc. v. Canarsie Kiddie Shop, Inc.*, 559 F. Supp. 1189, 1208-09 (E.D.N.Y. 1983) (finding that the mark "Kids r Us" was likely to dilute the mark "Toys 'R' Us" by blurring the latter's product identification); see also *McDonald's Corp. v. McBagel's, Inc.*, 649 F. Supp. 1268 (S.D.N.Y. 1986) (finding that McBagel's dilutes McDonald's family of marks with "Mc" prefix).

vey.¹⁶⁴ Blurring may lead to the degradation of a distinctive mark into an unprotected generic term, while tarnishment may lead to the negative association of a mark to a product of inferior quality.¹⁶⁵

In order to establish a *prima facie* claim for dilution—including for tarnishment and blurring—under the TDRA, a plaintiff must show that: “(1) the plaintiff is the owner of a mark that qualifies as a “famous” mark, (2) the mark is distinctive, (3) the defendant is making commercial use of the mark in interstate commerce, (4) defendant’s use began after plaintiff’s mark became famous, and (5) likelihood of dilution.”¹⁶⁶ Thus, to succeed on a claim of dilution in the Jolex hypothetical, Jolex would have to prove that: (1) its mark is famous and (2) distinctive; (3) Sammy’s use of its mark on watches is commercial; (4) Sammy began selling his watches after the Jolex mark had become famous; and that (5) dilution, by blurring of mark distinctiveness or tarnishment of mark reputation, is likely to cause negative associations of Jolex’s mark with Sammy’s products.

To succeed on a dilution claim by blurring, Jolex would need to prove its mark was made less distinctive by the existence of Sammy’s watches. For example, if consumers thought the watches Sammy sold were part of a new line made by Jolex, Jolex could claim the existence of Sammy’s watches were blurring the ability of the Jolex mark to identify its product.¹⁶⁷ To succeed on a dilution claim by tarnishment, however, Jolex would need to prove a negative association of the mark with a product of inferior quality. For example, if consumers thought Sammy’s watches were actually Jolex watches, and they found these watches to be cheap and inferior looking—or simply were shocked that a high-end brand like Jolex would sell virtual watches—Jolex could claim the affirmative association its mark conveys had been tarnished.¹⁶⁸

¹⁶⁴ See, e.g., *Am. Online, Inc. v. IMS*, 24 F. Supp. 2d 548, 552 (E.D. Va. 1998) (finding that plaintiff’s mark was tarnished when used in connection with a false Internet return address found in Internet spam); see also *Mattel Inc. v. Jcom Inc.*, No. 97 civ. 7191, 1998 WL 766711, at *2, *5 (S.D.N.Y. Sept. 11, 1998) (finding that the Barbie doll was tarnished by defendant’s use of Barbie’s Playhouse as the title of a pornographic Web site); *Polo Ralph Lauren L.P. v. Schuman*, No. 97 civ. 1855, 1998 WL 110059, at *4–5 (S.D. Tex. Feb. 9, 1998) (finding tarnishment arose as a result of defendant’s use of plaintiff’s mark in connection with adult night club).

¹⁶⁵ See 15 U.S.C. § 1125(c)(2).

¹⁶⁶ 98 AM. JUR. 313 3D *Proof of Facts* § 5 (2007).

¹⁶⁷ Cf. *Pocono Intern. Raceway, Inc. v. Pocono Mountain Speedway, Inc.*, 171 F. Supp. 2d 427, 443–44 (M.D. Pa. 2001) (holding that defendant-competitor’s use of the “Pocono Mountain Speedway” mark diluted the “Pocono International Raceway” mark by blurring due to confusion as to the origin of the mark for automobile race tracks).

¹⁶⁸ See *Victoria’s Cyber Secret Ltd. Partnership v. V Secret Catalogue, Inc.*, 161 F. Supp. 2d 1339, 1341–44, 1355 (S.D. Fla. 2001) (holding the Internet domain names “victoriasexsecret.com,” “victoriassexsecret.com,” “victoriasexysecret.com,” and “victoriasexysecret.com” for use with adult entertainment websites tarnished the mark VICTORIA’S SE-

C. Fair Use

Dilution, or any other claim of trademark infringement, does not exist without defense. The doctrine of fair use defines one such defense to trademark infringement.¹⁶⁹ Under the fair use doctrine, a defendant may use the trademark for a purpose that is acceptable at common law.¹⁷⁰ The Third Restatement of Unfair Competition defines fair use:

In an action for infringement of a trademark, trade name, collective mark, or certification mark, it is a defense that the term used by the actor is descriptive or geographically descriptive of the actor's goods, services, or business, or is the personal name of the actor or a person connected with the actor, and the actor has used the term fairly and in good faith solely to describe the actor's goods, services, or business or to indicate a connection with the named person.¹⁷¹

In trademark law, the fair use doctrine ensures that multiple goods can be described by the same terms.¹⁷² Thus, if Sammy placed an advertisement stating, "Sammy's watches—twice the life of Jolex watches," he is using the Jolex name to imply his product is superior. In this case, fair use may protect the use of the Jolex mark. With the trademark principles implicated in virtual infringement established, the validity of virtual infringement claims can be analyzed.

IV. IS VIRTUAL TRADEMARK INFRINGEMENT ACTIONABLE?

Given the rise of product placement and the number of potentially infringing virtual stores selling real-world brands in virtual worlds, it is necessary to determine how trademark laws apply. The use of trademarks in virtual worlds can be grouped into two categories: (1) the use of already existing real-world

CRET, creating a negative association.).

¹⁶⁹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 28 (1995). *See generally* DINWOODIE & JANIS, *supra* note 121, at 663 (discussing when unauthorized uses of another's mark may be deemed permissible as a matter of law nonetheless).

¹⁷⁰ *See generally* MCCARTHY, *supra* note 136, § 11:45 (explaining two different types of fair use found to be acceptable at common law, including "classic fair use" and "normative fair use").

¹⁷¹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 28 (1995).

¹⁷² *See, e.g.,* Zatarain's, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 792–93 (5th Cir. 1983) (holding the defendant's use of "fish fry" to describe a batter coating for fish was fair use because it was being used in a descriptive sense only, and did not infringe upon the plaintiff's mark "Fish-Fri"); Car-Freshner Corp. v. S.C. Johnson & Son, Inc., 70 F.3d 267, 269 (2d Cir. 1995) (holding that a candy manufacturer is permitted to use the term "sweet" to describe its own candy products, even though a car manufacturer owned rights in the mark "sweet" for cars); Cosmetically Sealed Indus., Inc. v. Chesebrough-Pond's USA Co., 125 F.3d 28 (2d Cir. 1997) (holding that defendant Chesebrough-Pond was free to use the phrase "Seal It With a Kiss!!" in connection with promotional displays for lipstick because it was descriptive, despite the fact that a plaintiff owned trademark rights in "Sealed With a Kiss" for lip gloss).

marks for virtual products as used by both game players and game providers in commercial and non-commercial contexts; and (2) the use of original marks for virtual products as created by virtual world players. This Part examines cases that have guided the applicability of trademark law to virtual worlds thus far, and determines to what extent the existing trademark laws protect virtual property rights.

A. Real-World Brand Owners' Marks in Virtual Worlds

Both game players and game providers have used real-world brand owners' marks in virtual worlds for entertainment and commercial purposes.¹⁷³ Game players may use real-world trademarks in a virtual setting in a multitude of ways. They may seek to convey a certain look by designing the newest Nike shoes for their avatar to wear, or, conversely, they may seek to capitalize on those who want to wear Nike shoes by setting up a virtual store to sell them. Similarly, game providers may use real-world marks in numerous ways. For example, game providers or designers may implicate trade dress by copying the look and feel of certain real-world locations into their game to give it an authentic real-world feeling, or alternatively to provide a distorted version of reality.¹⁷⁴ Lastly, real-world companies may also try to capitalize on the market by setting up their own shops, creating their own billboard advertisements, or placing their own products conspicuously throughout the game.¹⁷⁵

1. Use of Real-World Trademarks by Game Players

Players have the ability to design and name their avatars as they wish, creating the possibility for user generated avatars to infringe on another's trademark. Case law tends to establish that use of trademarks, if used for a fair use

¹⁷³ See, e.g., *Marvel Enter. Inc. v. NCSoft Corp.*, 74 U.S.P.Q.2d 1303, 1305 (C.D. Cal. 2005) (concerning avatars of well-known Marvel characters created by users); see also *Playboy Dealing with Knockoffs in Second Life*, VIRTUAL WORLD NEWS, May 13, 2008, <http://www.virtualworldsnews.com/2008/05/playboy-dealing.html> [hereinafter *Playboy Dealing with Knockoffs*] (discussing the usage of Playboy's real-world trademark by unauthorized game users in the virtual world Second Life); *E.S.S. Entm't 2000, Inc. v. Rock Star Videos, Inc.*, 444 F. Supp. 2d 1012 (C.D. Cal. 2006) (involving game provider of Grand Theft Auto, who based several game scenes on real-world trademark of a well-known Los Angeles strip club).

¹⁷⁴ See, e.g., *Sherwood 48 Assocs. v. Sony Corp. of Am.*, 213 F. Supp. 2d 376, 376–77 (S.D.N.Y. 2002) (dealing with a movie where the producers used a digital recreation of plaintiff's property).

¹⁷⁵ See *Intel, McDonalds Enter Sims' World*, *supra* note 33 (describing Intel Corp.'s and McDonald's Corp.'s placement of advertisements within a Sims game).

purpose, such as for descriptive use, is permissible.¹⁷⁶ Thus, the descriptive use of a trademark to identify the original does not implicate trademark infringement where the use is reasonably necessary to describe the product or service. However, this is dependent on the use not increasing the likelihood of customer confusion as to the origin of the product, including sponsorship or endorsement.¹⁷⁷

In *New Kids on the Block v. News America Publishing*, the Court held that a newspaper's use of the musical group's trademark for a poll did not constitute infringement.¹⁷⁸ The *Star* and *USA Today* ran polls in their papers asking fans which band member they preferred.¹⁷⁹ The Court found that the newspapers were entitled to a fair use defense if they met the following criteria:

First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.¹⁸⁰

The Court found that the newspaper—in referring to the band's name during the course of conducting a telephone poll about the most popular member of the band—had a valid fair use defense where no sponsorship or endorsement was suggested.¹⁸¹

¹⁷⁶ See, e.g., *Car-Freshner Corp.*, 70 F.3d at 269 (concluding that "sweet" is descriptive and can be used to describe a candy product despite the fact that a car manufacturer owned rights in the mark "sweet" for cars); *Cosmetically Sealed Indus., Inc.*, 125 F.3d at 30–31; (holding that defendant Chesebrough-Pond could use the phrase "Seal It With a Kiss!!" in connection with promotional displays for lipstick even though plaintiff Cosmetically Sealed owned trademark rights in "Sealed With a Kiss" for lip gloss); *Wonder Labs, Inc. v. Procter & Gamble Co.*, 728 F. Supp. 1058, 1066 (S.D.N.Y. 1990) (holding that Procter & Gamble could use the phrase "The dentist's choice" in connection with its Crest toothpaste without infringing on Wonder Lab's trademark rights in "Dentist's Choice" for toothbrushes).

¹⁷⁷ See *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002); accord. *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 907 n.3 (9th Cir. 2002); *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 123 (2004).

¹⁷⁸ *New Kids on the Block v. News Am. Publ'g Inc.*, 971 F.2d 302, 306, 309 (9th Cir. 1992).

¹⁷⁹ *Id.* at 304.

USA Today's announcement contained a picture of the New Kids and asked, "Who's the best on the block?" The announcement listed a 900 number for voting, noted that "any USA Today profits from this phone line will go to charity"

The *Star's* announcement, under a picture of the New Kids, went to the heart of the matter: "Now which kid is the sexiest?" The announcement, which appeared in the middle of a page containing a story on a New Kids concert, also stated: "Which of the New Kids on the Block would you most like to move next door? STAR wants to know which cool New Kid is the hottest with our readers." Readers were directed to a 900 number to register their votes; each call cost 95 cents per minute.

Id.

¹⁸⁰ *Id.* at 308 (citation omitted).

¹⁸¹ *Id.* ("While plaintiffs' trademark certainly deserves protection against copycats and

Similarly, in one of the first cases dealing with intellectual property rights in the virtual world, *Marvel Enterprises Incorporated v. NCSoft Corporation*, the Court analyzed whether players of the game City of Heroes could design and name avatars based on well-known Marvel comic characters without infringing on Marvel's trademark rights.¹⁸² City of Heroes allows players to create avatars with superhero attributes for game use.¹⁸³ Marvel sued NCSoft for contributory and vicarious liability for trademark infringement, asserting that the name of the gamer-created avatar, "Statesman," created a likelihood of confusion with Marvel's own "Captain America."¹⁸⁴ Marvel further claimed that NCSoft knew or should have known that its copyright and trademark infringement would diminish the value of Marvel's intellectual property rights in its characters.¹⁸⁵ The Court dismissed Marvel's federal trademark infringement claims against game publisher NCSoft Corporation and developer Cryptic Studios because a finding of likelihood of confusion as to the names "Statesman" and "Captain America" would be unreasonable.¹⁸⁶ It further held that Marvel had failed to show that the players used the trademarks in a commercial setting or in connection with any sale or advertising, as required for a federal trademark action.¹⁸⁷

The implication of *New Kids on the Block* and *Marvel* is that giving an avatar an already trademarked name, where the likelihood of confusion is unreasonable and the player is not using the name in connection with commerce, does not constitute trademark infringement. Thus, as in *Marvel*, the residents of virtual worlds seem to be protected by fair use when they use a trademark for their avatar.¹⁸⁸

those who falsely claim that the New Kids have endorsed or sponsored them, such protection does not extend to rendering newspaper articles, conversations, polls and comparative advertising impossible.").

¹⁸² *Marvel Enter. Inc. v. NCSoft Corp.*, 74 U.S.P.Q.2d 1303, 1305–06 (C.D. Cal. 2005).

¹⁸³ See Welcome to City of Heroes!, http://www.cityofheroes.com/game_info/welcome_to_city_of_heroes/welcome_to_city_of_heroes.html (last visited Apr. 9, 2009).

¹⁸⁴ Complaint ¶¶ 1, 15, *Marvel Enter. Inc. v. NCSoft Corp.*, 74 U.S.P.Q.2d 1303 (C.D. Cal. 2005), available at http://www.eff.org/files/filenode/Marvel_v_NCSoft/20041115_Marvel_NCSoft.pdf.

¹⁸⁵ *Id.* ¶¶ 92–93.

¹⁸⁶ *Marvel Enter., Inc.*, 74 U.S.P.Q.2d at 1307–08; see *Case: Marvel Ent. v. NCSoft Corp. (Settled 2005)*, PATENT ARCADE, June 21, 2006, <http://www.patentarcade.com/2006/06/case-marvel-ent-v-ncsoft-corp-settled.html> (noting that the state law claims survived the motion to dismiss on federal trademark infringement).

¹⁸⁷ *Marvel Enter. Inc.*, 74 U.S.P.Q.2d at 1308 (making the finding on claims of contributory infringement and vicarious infringement).

¹⁸⁸ Some virtual world providers explicitly state in their user agreements that the names of avatars may not violate any trademark. Though game providers enforce these provisions to a varying degree, users selecting such a name risk of cancellation of their accounts. See, e.g., SL TOS, *supra* note 35 ("You must choose an account name to identify yourself to Linden Lab staff . . . You may not select as your Account Name the name of another per-

While players' use of real-world trademarks for their characters names likely are not considered trademark infringement when used for non-commercial purposes, this might not be so in the case of virtual worlds with integrated economies. Because currency and virtual property in these economies are bought and sold with real-world U.S. dollars and frequently players use real-world marks for profit,¹⁸⁹ these trademarks may be considered unauthorized trademark use.¹⁹⁰ For these types of worlds, trademark infringement depends on how the trademark is used and whether the use implies sponsorship or endorsement by the real-world company.

For example, in *New Kids on the Block*, the court considered whether the mark was used in commerce when the fans were charged a fee when responding to a newspaper poll via telephone.¹⁹¹ The New Kids on the Block claimed that even if the newspaper was entitled to a fair use defense, the polls conducted by the newspapers were for profit and, therefore, were in competition with the band's own business.¹⁹² The Court held that in cases where use does not imply sponsorship or endorsement, "the fact that it is carried on for profit

son to the extent that could cause deception or confusion; a name which violates any trademark right, copyright, or other proprietary right"); PlayNC, User Agreement, http://us.ncsoft.com/us/help/eula_coh.html (last visited Apr. 16, 2009) [hereinafter City of Heroes User Agreement] ("You may not select as your Account ID the name of another person, or a name which violates any third party's trademark right, copyright, or other proprietary right"). Though game providers enforce these provisions to a varying degree, users selecting such a name risk cancellation of their accounts. See, e.g., SL TOS, *supra* note 35 ("Linden Lab reserves the right to delete or change any Account Name for any reason or no reason."); City of Heroes User Agreement, *supra* ("NC Interactive reserves the right, in its sole discretion, to . . . delete or alter any Account ID").

¹⁸⁹ See DURANSKE, VIRTUAL LAW, *supra* note 2, at 151.

¹⁹⁰ 15 U.S.C. § 1114 (2006).

Any person who shall, without the consent of the registrant . . . use in commerce any reproduction, counterfeit, copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

Id.

¹⁹¹ *New Kids on the Block v. News Am. Publ'g Inc.*, 971 F.2d 302, 304 & n.1 (9th Cir. 1992) ("The *USA Today* poll generated less than \$300 in revenues, all of which the newspaper donated to the Berklee College of Music. *The Star's* poll generated about \$1600.").

¹⁹² *Id.* at 309.

The New Kids' argument in support of this distinction is not entirely implausible: They point out that their fans, like everyone else, have limited resources. Thus a dollar spent calling the newspapers' 900 lines to express loyalty to the New Kids may well be a dollar not spent on New Kids products and services, including the New Kids' own 900 numbers. In short, plaintiffs argue that a nominative fair use defense is inapplicable where the use in question competes directly with that of the trademark holder.

Id.

and in competition with the trademark holder's business is beside the point."¹⁹³ The Court added that, even if the fans were spending money on the polls that they otherwise would have spent on the band's products, "trademark laws do not give the New Kids the right to channel their fans' enthusiasm (and dollars) only into items licensed or authorized by them."¹⁹⁴

This statement by the court seems to imply that where no confusion as to sponsorship or endorsement exists, a person or entity may even use a trademark for profit. However, sponsorship or endorsement can often be unclear in the virtual world, especially given the increasing presence of real-world companies on virtual platforms.¹⁹⁵ Though there has been little litigation in cases where players have used trademarks for profit in virtual worlds such as Second Life, one real life example helps to illustrate this problem and a possible solution.

Herman Miller, Inc. makes expensive, well-recognized furniture, and has attempted to fight unauthorized virtual "knock-offs" sold on Second Life.¹⁹⁶ *Virtual World News* explained that the designer would enter the Second Life virtual world in an effort to remove knockoff products with its "Get Real" campaign.¹⁹⁷ The article stated that Herman Miller, "will be offering a collection of 15 pieces for L\$300–L\$850, or approximately U.S. \$1.40 to \$3.50, but users that have bought knockoffs in the past will get the new pieces for free. . . . Those taking advantage of this limited-time, honor-based offer need only delete their old inventory and then 'Get Real.'"¹⁹⁸ Herman Miller's own Second Life advertisement claims, "Herman Miller is pleased to give you the opportunity to own authentic virtual versions of some of our products. Each is designed to represent as closely as possible its real-world counterpart."¹⁹⁹ Thus, Herman Miller is attempting to remove virtual knockoff pieces of its furniture by entering the virtual world and replacing them itself. This solution helps facilitate the dual goals of trademark law—it protects the public from confusion as to whether the product is truly a Herman Miller design, and it protects the brand.

Similarly, Playboy Enterprises, Inc. has dealt with knockoffs in Second Life by providing its own products as alternatives to the brand name knockoffs, and

¹⁹³ *Id.*

¹⁹⁴ *Id.*

¹⁹⁵ See, e.g., *Intel, McDonalds Enter Sims' World*, *supra* note 33.

¹⁹⁶ Benjamin Duranske, *Herman Miller Fights Trademark Infringement in Second Life with "Get Real" Campaign*, VIRTUALLY BLIND, Oct. 8, 2007, <http://virtuallyblind.com/2007/10/08/herman-miller-second-life> [hereinafter Duranske, *Herman Miller*].

¹⁹⁷ *Herman Miller Combats Knockoffs in Second Life with Freebies*, VIRTUAL WORLD NEWS, Oct. 7, 2007, <http://www.virtualworldsnews.com/2007/10/herman-miller-c.html>.

¹⁹⁸ *Id.*

¹⁹⁹ Duranske, *Herman Miller*, *supra* note 196.

in some cases, even permitting designers to sell its products.²⁰⁰ The Herman Miller and Playboy examples represent the efforts by some major companies to curtail trademark infringement by players in virtual worlds in creative ways, outside of litigation. However, a different solution may be necessary where the provider or administrator of the virtual world is the party using the trademark.

2. Use of Real-World Trademarks by Game Providers

Game providers may seek to use real-world trademarks or trade dress to enhance the look and feel of their games.²⁰¹ Game providers are not the first to do this; recognizable trademarks and trade dress have been used throughout movies to create real life settings for years. In *Sherwood 48 Associates v. Sony Corp. of America*, the owners of several Times Square buildings sued Sony for trademark infringement for the digital use of their buildings in the movie *Spi-derman*.²⁰² Sony took photos of Times Square and digitally altered them, making changes to and replacing several existing advertisements on the face of the buildings.²⁰³ The court held that, absent a finding of relevant consumer confusion, Sony had not infringed the building owners' trademark rights.²⁰⁴ It noted that movies frequently are the setting for identifiable trade dress, adding that Times Square was "central to a major scene in the movie thereby serving the theatrically relevant purpose of orienting the viewer to the location," and such usage is permissible so long as there is no correlating consumer confusion.²⁰⁵

Similarly, in *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, the owner of the Play Pen strip club in Los Angeles sued for trademark and trade dress infringement for use of the name and representation of a similarly stylized "Pig Pen" strip club in the game *Grand Theft Auto—San Andreas*.²⁰⁶ The court found that the game designer's use of the "Pig Pen" name and buildings were permissible under the First Amendment,²⁰⁷ reasoning that the use had "ar-

²⁰⁰ *Playboy Dealing with Knockoffs*, *supra* note 173.

²⁰¹ See, e.g., Erika Brown, *Product Placement on the Rise in Video Games*, *FORBES*, July 24, 2006, at 84 (noting the use of marks such as "Ducati Supersport" motorcycles, "Lexus," and "Hawaiian Airlines" in the game *Test Drive Unlimited*).

²⁰² See *Sherwood 48 Assocs. v. Sony Corp. of Am.*, 213 F. Supp. 2d 376, 376–77 (S.D.N.Y. 2002); *vacated*, 76 Fed. App'x. 389 (2d Cir. 2003) (vacating on jurisdictional grounds—the court approved of the dismissal of the federal trademark claims).

²⁰³ *Id.* at 377.

²⁰⁴ *Id.*

²⁰⁵ *Id.*

²⁰⁶ See *E.S.S. Entm't 2000, Inc. v. Rock Star Videos, Inc.*, 444 F. Supp. 2d 1012, 1014 (C.D. Cal. 2006).

²⁰⁷ *Id.* at 1048. In balancing First Amendment rights and trademark claims, courts have held that a proper test requires that the Lanham Act be construed narrowly so as to apply to artistic works "only where the public interest in avoiding consumer confusion outweighs the public interest in free expression." *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989).

tistic relevance to defendants' twisted, irreverent image of urban Los Angeles."²⁰⁸ The court further reasoned that the trade dress of the virtual club does not "explicitly mislead consumers as to the *content* of the Game" because "[t]he Pig Pen does not appear in any promotional literature for San Andreas, nor does it appear on the exterior packaging of the Game."²⁰⁹

Both *Sherwood* and *E.S.S. Entertainment* support the finding that where game providers use real-world trademark and trade dress in their games, such use can be permissible absent any possibility of consumer confusion.²¹⁰ Further, both cases suggest that trademark infringement claims in such instances should be balanced against First Amendment protections.²¹¹ It seems clear then, that game providers are free to use trademarks in order to establish a "real" virtual world. With use of real-world marks by a gamer providers and players examined, the remaining issue concerns what rights do trademark owners have when voluntarily placing their trademarks within a virtual world.

3. Use of Real-World Trademarks by Real-World Brands Through Advertisement Placement

Product placement is used by trademark owners to promote and market their products in various media.²¹² Product placement is a prominent type of advertising in television shows and movies.²¹³ In 2005 alone, marketers spent \$941 million dollars to integrate brands into TV shows, while the average city resident was exposed to 3000 to 5000 ad messages a day.²¹⁴

As the market for virtual property booms, it is easy to see why entrepreneurs have flocked to virtual worlds to create virtual businesses and advertisement, as well as launch new products.

Corporations such as Coca-Cola and MTV have launched billboards, advertisements, products, and services in virtual worlds.²¹⁵ With the population of

²⁰⁸ *E.S.S. Entm't 2000, Inc.*, 444 F. Supp. 2d at 1041.

²⁰⁹ *Id.* at 1044.

²¹⁰ *See id.* at 1048; *Sherwood 48 Assocs. v. Sony Corp. of Am.*, 213 F. Supp. 2d 376, 377 (S.D.N.Y. 2002).

²¹¹ *See E.S.S. Entm't 2000, Inc.*, 444 F. Supp. 2d at 1048; *Sherwood 48 Assocs.*, 213 F. Supp. 2d at 377.

²¹² *See* Press Release, The Conference Board Inc., More Companies Are Using Virtual Worlds (Sept. 10, 2007), http://www.conference-board.org/utilities/pressDetail.cfm?press_ID=3205 [hereinafter Conference Board Press Release] (noting various companies placing real-world product advertisements in Second Life).

²¹³ Laura Petrecca, *Product Placement—You Can't Escape It*, USA TODAY, Oct. 11, 2006, at 1B, available at http://www.usatoday.com/money/advertising/2006-10-10-ad-nauseum-usat_x.htm.

²¹⁴ *Id.*

²¹⁵ *See* Brown, *supra* note 46, at 610 (noting also that at least one commenter claims "there has been little return on investment for the companies that have chosen to market in-

Second Life growing at thirty-nine percent per month, the stream of consumers to target is ample.²¹⁶ Such use of real-world trademarks by real-world companies is, of course, permissible. However, a company that waits to establish a presence in the virtual world now may find the market saturated with infringing virtual products in the future. Similarly, virtual world users who have created brands must not hesitate in finding ways to protect their creations and prevent unauthorized use.

B. Virtual-World User Created Brands

Virtual users may create brands for many reasons. If the user is creating a brand for a commercial purpose in a virtual world, he or she may have a case for redress if the mark is infringed.²¹⁷ Even in games with non-integrated economies, a user may find relief under trademark law if the trademark may be tarnished through use by others.²¹⁸ Thus, game players may create brands for commercial and non-commercial purposes—both of which may receive some protection under trademark law.

1. Brands Created by Users for Commercial Purposes

Kevin Alderman creates and sells virtual adult products in Second Life.²¹⁹ Alderman discovered what he claims to be exact copies of his creations throughout Second Life.²²⁰ Alderman accused a separate user, Thomas Simon, of exploiting a glitch in the Second Life software that allowed him to make unauthorized copies of Alderman's products.²²¹ Alderman and five other Second Life business operators filed a formal complaint against Simon in New York Federal District Court arguing that he was "making and selling, and continue[d] to make and sell, numerous unauthorized copies of Plaintiff's virtual products within Second Life" in violation of trademark and copyright law.²²²

world").

²¹⁶ See Nuara et al., *supra* note 63, at 536–37.

²¹⁷ See *infra* Part IV.B.1 (discussing the rights of virtual world users who have created brands).

²¹⁸ See *infra* Part IV.B.1.

²¹⁹ See Regina Lynn, *Stroker Serpentine, Second Life's Porn Mogul, Speaks*, WIRED, Mar. 30, 2007, http://www.wired.com/culture/lifestyle/commentary/sexdrive/2007/03/sex_drive0330. Alderman created the first virtual sex bed allowing for animated avatar intercourse and sold a virtual Amsterdam sex city for U.S. \$50,000. *Id.*

²²⁰ See Benjamin Duranske, *Six Major Second Life Content Creators Sue Alleged Copyright Infringer in NY Federal District Court*, VIRTUALLY BLIND, Oct. 27, 2007, <http://virtuallyblind.com/2007/10/27/content-creators-sue-rase-kenzo/>.

²²¹ *Id.*

²²² See Eros Complaint, *supra* note 125, ¶¶ 1–2; see also Nuara et al., *supra* note 63, at 559–60.

Alderman offered factual evidence to show his company, Eros, LLC, used a trademark referred to as the "SexGen trademark" for the sale of all his products within Second Life.²²³ Further, he claimed his trademark was source-identifying to virtual consumers because he was one of Second Life's most successful merchants.²²⁴ As such, Simon's theft of his product caused consumer confusion as to the source and quality of his products.²²⁵

Alderman relied on nothing beyond the trademark rights that Second Life gives to its owners in its TOS.²²⁶ The court enjoined Simon from further unauthorized copying and granted compensation to the plaintiffs.²²⁷ This case appears to be one of the first court cases where a gamer, relying solely on the TOS agreement to provide protection for a mark that exists only in the virtual world, has sued another party for injunctive and compensatory relief. However, this trend is certain to continue as the Patent and Trademark Office starts to grant more and more trademark protection to Second Life creations.²²⁸

One case that has not yet been decided concerns Second Life user Richard Minsky. In August 2008, Minsky alleged trademark infringement of his trademark "SLART."²²⁹ In his complaint, Minsky named an avatar known as "Victor Vezina," as well as Second Life founder Philip Rosedale, former Linden Lab board chair Mitch Kapor, and Linden Labs, as defendants.²³⁰ Minsky is an artist who goes by the avatar name "ArtWorld Market" in Second Life.²³¹ Minsky owns a Second Life gallery where he resells artistic works acquired from other residents.²³² In his complaint he states,

I thought about a name that could be used not only for the gallery and magazine, but for purposes beyond SL-for real world activities, such as a real world gallery showing traditional media, for publications that went beyond SL, for an art school, for publishing art online, for publishing musical works, and for other activities that I was think-

²²³ Eros Complaint, *supra* note 125, ¶ 22.

²²⁴ *Id.* ¶¶ 18-24.

²²⁵ Nuara et al., *supra* note 63, at 560.

²²⁶ *See id.*

²²⁷ Eros, LLC v. Simon, No. 07 Civ. 4447, slip op. at 1-2 (E.D.N.Y. 2008)), *available at* [http://www.citmedialaw.org/sites/citmedialaw.org/files/2008-01-03-Judgment by Consent as to Simon.pdf](http://www.citmedialaw.org/sites/citmedialaw.org/files/2008-01-03-Judgment%20by%20Consent%20as%20to%20Simon.pdf).

²²⁸ Thayer Preece, *Second Life Artists Rightfully Upset over "SLART" Trademark Registration*, VIRTUALLY BLIND, Jan. 25, 2008, <http://virtuallyblind.com/2008/01/25/slart-trademark/> [hereinafter Preece, *Upset over "SLART"*].

²²⁹ Benjamin Duranske, *Linden Lab, Avatar "Victor Vezina," Philip Rosedale, and Mitch Kapor Sued Over SLART Trademark*, VIRTUALLY BLIND, Sept. 2, 2008, <http://virtuallyblind.com/2008/09/02/minsky-linden-lab-complaint/> [hereinafter Duranske, *SLART Trademark*].

²³⁰ Amended Complaint ¶¶ 4-6, Minsky v. Linden Research, Inc. (N.D.N.Y. 2008) (No. 08 civ. 819), *available at* http://virtuallyblind.com/files/slart/2008-08-14-amended_complaint.pdf [hereinafter *SLART Complaint*].

²³¹ Duranske, *SLART Trademark*, *supra* note 229.

²³² *SLART Complaint*, *supra* note 230, ¶ 11.

ing about, and came up with the name SLART.²³³

Minsky registered the “SLART” mark with the Patent and Trademark Office, which approved the registration on March 18, 2008.²³⁴ At the time of registration, the Patent and Trademark Office received no opposition to the mark.²³⁵ Minsky later discovered the avatar “Vezina” was using the name “SLART Garden” for an art gallery and “SLartists of Second Life” as the name of a group.²³⁶ Minsky alleged that “Vezina” by “using the name ‘SLART Garden’ for an [in-world] art gallery and ‘SLartists of Second Life’ as the name of a Group” had infringed Minsky’s “SLART” trademark.²³⁷

Though it ultimately settled out of court, the case is of particular interest because Linden Lab employees could have been held liable for fraud and contributory infringement.²³⁸ This is based on the claim that they hosted the allegedly infringing content and failed to remove it when brought to their attention.²³⁹ Further, though Minsky’s mark “SLART” received no formal objection when registered with the Patent and Trademark Office, there has been speculation as to whether it ever should have received registration.²⁴⁰ Trademark attorney, Thayer Preece, a guest writer for *Virtually Blind*, a blog that covered legal issues impacting the virtual world noted, “[a]lthough the SLART trademark probably shouldn’t have been registered in the first place, it has been, and now people are faced with a choice of either losing the use of the word, or opening themselves up to potential lawsuits and account suspensions.”²⁴¹ Whether Minsky’s mark should have been registered or not, his complaint is yet another example of the rising number of game players who seek protection for the brands and marks they create within virtual worlds.

2. Brands Created by Users for Non-Commerical Purposes

Even in MMORPGs with non-integrated economies, trademark rights can

²³³ *Id.*

²³⁴ See U.S. Registration No. 3,399,258 (filed Mar. 22, 2007), available at <http://portal.uspto.gov/external/portal/tow?SRCH=Y&isSubmitted=true&details=&SELECT=US+Serial+No&TEXT=77137283#> (click “RegistrationCertificate”).

²³⁵ SLART Complaint, *supra* note 230, ¶ 20.

²³⁶ *Id.* ¶ 24.

²³⁷ *Id.* ¶¶ 24, 49–50.

²³⁸ Minsky v. Linden Research, Inc., No. 08 civ. 819, slip op. at 1 (N.D.N.Y. 2009), available at http://www.3dinternetlaw.com/Trademark/Trademark/Minsky_files/Order%20Dismissing%20Action%20by%20Settlement.pdf (dismissing action by reason of settlement).

²³⁹ SLART Complaint, *supra* note 230, ¶¶ 48–69.

²⁴⁰ See Preece, *Upset over “SLART,”* *supra* note 228.

²⁴¹ *Id.* Preece explains that Second Life residents were outraged over the registration of the mark “SLART” because it is a generic term and therefore should not be allowed registration. *Id.*

still be infringed. Players who devote substantial amounts of time to their teams, referred to sometimes as guilds, may seek to protect the guild name.²⁴² Because names and reputation are especially important in MMORPGs—particularly in combat and collection games—players have begun to protect their marks through trademark registration.²⁴³ Sean Stalzer, for example, trademarked his name, “The Syndicate,” for “entertainment services, namely, an online gaming guild providing in game opportunities for proliferating game expertise and camaraderie among gamers supported by a web site featuring multimedia materials in [the game].”²⁴⁴ Because virtual-world guilds and individual players may occasionally receive corporate sponsorship, the risk of another guild passing off their skills as someone else’s can mean loss of financial support.²⁴⁵ Given the numerous ways trademark law may be actionable within virtual worlds, methods of possible in-game dispute resolution systems need to be examined.

V. ALTERNATIVE AND ONLINE DISPUTE RESOLUTION SYSTEMS

Alternative dispute resolution methods play an increasingly important role in settling disputes involving online activities, including online commercial transactions and the creation of trademarks that exist online only, such as domain names.²⁴⁶ Therefore, it is important to examine how these methods have formed, and how they can be utilized to regulate virtual-world trademark disputes as an alternative to lengthy and costly court adjudications. This section describes the development of traditional alternative dispute resolution methods and the later progression of online alternative dispute mechanisms.

A. Traditional Alternative Dispute Resolution Methods

In the United States, courts are congested with the tens of millions of cases

²⁴² See, e.g., The Syndicate Trademarked, <http://www.llts.org/Guild.php?p=Trademark/Trademark> (last visited Apr. 15, 2009) (detailing the trademark of a particular players guild); The Syndicate, The Guild, <http://www.llts.org/Guild.php> (last visited Apr. 15, 2009) (stating that “[g]roups of players are typically referred to as Guilds”).

²⁴³ Crittenden, *supra* note 37, at 245–46 (listing various Second Life users who have registered their virtual content creations with the U.S. Patent and Trademark Office).

²⁴⁴ *Id.* at 246.

²⁴⁵ See Game Audio Network Guild Sponsorship Level Guidelines, http://www.audiogang.org/index.php?option=com_content&task=view&id=81&Itemid=116 (last visited Apr. 9, 2009); Posting of Oli to World of Warcraft Discussion, Guild Sponsorship in WoW, <http://wowdiscuss.blogspot.com/2008/04/guild-sponsorship-in-wow.html> (Apr. 17, 2008, 08:05 PST).

²⁴⁶ See COLIN RULE, ONLINE DISPUTE RESOLUTION FOR BUSINESS 3-4 (2002).

filed each year.²⁴⁷ Moreover, cases often face multi-year delays and can result in extraordinary fees for the parties involved.²⁴⁸ The total annual cost of litigation in 2002 was approximated to be more than \$200 billion per year.²⁴⁹ Thus, inefficiencies inherent in settling disputes through the courts, coupled with the high price of litigation, have resulted in the creation of alternative mechanisms to resolve disputes.²⁵⁰

Alternative dispute resolution (“ADR”) is an umbrella term that refers generally to non-traditional alternatives to court adjudication of legal disputes.²⁵¹ Over the last few decades, the field of ADR has grown primarily as a response to two main limitations of court adjudication.²⁵² For one, ADR is often perceived as a quicker, more cost-effective, less daunting, and less stigmatizing solution than litigation.²⁵³ Discussions are private, parties can decide their degree of involvement in the process, and disputes are sometimes resolved in a matter of weeks.²⁵⁴ The court system even remains the largest source of referrals for mediation, with courts in many jurisdictions encouraging attorneys to raise the possibility of ADR with clients.²⁵⁵

The second reason that ADR has become an increasingly important alternative to litigation is that it allows more flexibility in the outcome, making it more suitable to the problem and more solution-based than blame-based.²⁵⁶ Many reasons limit a court’s ability to resolve a given problem adequately: the interest in having the matter settled in court may change over time, the monetary compensation may be inadequate, or the solution may miss the point of restoring the value in question.²⁵⁷ While court adjudication tends to end in a win-lose situation, the main goal of ADR techniques is to come up with a win-win outcome where both parties are satisfied and may even be put in a position to work together again.²⁵⁸

²⁴⁷ *Id.* at 2.

²⁴⁸ *Id.*

²⁴⁹ *Id.*

²⁵⁰ *See id.*

²⁵¹ 55 AM. JUR. TRIALS *Alternative Dispute Resolution* § 1 (1995); *see* 4 AM. JUR. 2D *Alternative Dispute Resolution* § 1 (2007).

²⁵² ETHAN KATSH & JANET RIFKIN, *ONLINE DISPUTE RESOLUTION* 26, 29 (2001); *see also* RULE, *supra* note 246, at 2. For a brief discussion of ADR’s history and development, *see* generally *id.* at 13–17.

²⁵³ 55 AM. JUR. TRIALS *Alternative Dispute Resolution* § 1; *see also* KATSH & RIFKIN, *supra* note 252, at 25, 29–30.

²⁵⁴ *See* RULE, *supra* note 246, at 2–3.

²⁵⁵ KATSH & RIFKIN, *supra* note 252, at 29; *see* 55 AM. JUR. TRIALS *Alternative Dispute Resolution* § 1.

²⁵⁶ KATSH & RIFKIN, *supra* note 252, at 25, 29.

²⁵⁷ Carita Wallgren, *ADR and Business*, in *ADR IN BUSINESS* 3, 3 (Jean-Claude Goldsmith, Arnold Ingen-Housz & Gerald H. Pinton eds., 2006).

²⁵⁸ KATSH & RIFKIN, *supra* note 252, at 29.

Though there are many types of ADR, the most common methods are mediation, negotiation, and arbitration.²⁵⁹ The first method, mediation, involves a neutral third party who is invited to help guide the discussion towards a settlement.²⁶⁰ When parties select mediation as the method of dispute resolution, the mediator may determine the rules, but does not resolve the dispute.²⁶¹ Hence, the parties must agree on the resolution of the dispute or else risk going to trial.²⁶² Mediation is traditionally a private process, but can sometimes be court-sponsored.²⁶³

The second method, negotiation, is a “voluntary, consensual process involving the two disputing parties . . . as they attempt to resolve their dispute.”²⁶⁴ Negotiation is a private process, and the disputing parties do not seek the help of a neutral third party to guide discussion or offer points for resolution.²⁶⁵

Unlike negotiation proceedings and mediation, in the third method, arbitration, the disputing parties lose control over the outcome of their dispute and agree to let a third party, or arbitrator, resolve the dispute.²⁶⁶ The parties select the arbitrator, relate the issues and facts surrounding the dispute to the arbitrator, and allow the arbitrator to decide the outcome of the dispute.²⁶⁷ While these are the general categories of ADR, ADR continues to develop and adjust to the needs of the parties.²⁶⁸

Because of the speed and low costs associated with ADR, many businesses and corporations are turning to ADR as a method for more efficient company management.²⁶⁹ Due to its contractual nature, ADR lends itself to agreements among businesses. Businesses may streamline their dispute resolution process by adding a mandatory contractual ADR provision to the agreement underlying a business transaction, which would be binding by law.²⁷⁰ Further, compro-

²⁵⁹ Philippe Gilliéron, *From Face-to-Face to Screen-to-Screen: Real Hope or True Fallacy?*, 23 OHIO ST. J. DISP. RESOL. 301, 304 (2008).

²⁶⁰ MARTIN A. FREY, ALTERNATIVE METHODS OF DISPUTE RESOLUTION 13 (2003).

²⁶¹ *Id.*

²⁶² *See id.* at 15 (“If settlement is not reached, the mediation can be used to refine timetables, resolve discovery issues, and streamline the issues for trial.”).

²⁶³ *Id.* at 14 (noting that a judge appointed by the court typically will mediate in this scenario).

²⁶⁴ *Id.* at 11.

²⁶⁵ *Id.*

²⁶⁶ *See id.* at 16 (noting that arbitration “is at the interfering end of the dispute resolution spectrum”).

²⁶⁷ *See id.*

²⁶⁸ *See* Gilliéron, *supra* note 259, at 304. One notable hybrid type of ADR is mediation-arbitration, or Med-Arb, which starts with private mediation, but turns to private arbitration if the parties cannot settle their dispute with mediation processes. FREY, *supra* note 260, at 19.

²⁶⁹ *See* Wallgren, *supra* note 257, at 3–4.

²⁷⁰ *See* AM. JUR. TRIALS *Alternative Dispute Resolution* § 2 (1995) (noting that such an agreement is binding, it is also a waiver of a right to trial).

mises reached through ADR provisions may allow companies to retain important business relationships that would have been otherwise impaired if resolved through court adjudication.²⁷¹

Similarly, innovation and technology have also increased the need for ADR methods.²⁷² Modern products develop at rapid speeds, and the value of these products may be outdated by the time a claim has arisen and a court-mandated solution has been determined.²⁷³ Business use of ADR techniques has also coincided with the Internet revolution.²⁷⁴ As businesses began to sell their goods and services over the Internet, the need to resolve consumer-provider disputes online arose.²⁷⁵ The result was a new system of ADR that combined the flexibility of ADR methods with the accessibility of the Internet to create an even more efficient non-traditional approach to court adjudication: online dispute resolution.²⁷⁶

B. Online Dispute Resolution and Virtual Trademarks

Online dispute resolution (“ODR”) can be defined as “any form of . . . [ADR] that incorporates the use of the Internet or technological tools”²⁷⁷ and stems directly from traditional offline ADR techniques.²⁷⁸ Key to ODR are the same efficiencies found in ADR practice; however, ODR gives disputing parties who live on different continents the ability to resolve a conflict without the jurisdictional and logistical problems that normally follow traditional ADR processes.²⁷⁹

ODR developed in different phases.²⁸⁰ During the first phase, which led up to 1995, any ODR was generally informal and context-specific.²⁸¹ For example, disputes over the inclusion of one’s name on a listserv were almost always handled within the listserv.²⁸² During the second period, from 1995 to 1998, concern over the rapid growth of the Internet resulted in several university-

²⁷¹ See Wallgren, *supra* note 257, at 3.

²⁷² See *id.* at 4 (noting that in the context of disputes technological or scientific disputes, “[d]ifferences need to be resolved in real time—or at least sooner rather than later”).

²⁷³ See *id.*

²⁷⁴ See RULE, *supra* note 246, at 28.

²⁷⁵ *Id.*

²⁷⁶ See *id.* at 3.

²⁷⁷ Gilliéron, *supra* note 259, at 302 (citation omitted).

²⁷⁸ See RULE, *supra* note 246, at 13.

²⁷⁹ See *id.* at 3–4.

²⁸⁰ See generally KATSH & RIFKIN, *supra* note 252, at 45–70 (identifying the different phases of the ODR development).

²⁸¹ *Id.* at 47.

²⁸² *Id.* at 49–51 (discussing how listserv moderators deal with users who post angry, emotional, and personal information about other users).

based and foundation-funded projects and experiments to examine how ODR could be used to resolve problems of fraud and infringement over the Internet.²⁸³ During the last stage, which spans 1998 to the present, the ODR industry began to evolve into an appropriate and favored alternative to disputes involving online activities.²⁸⁴ This period has been characterized by significant online commercial activity and has garnered increased attention by governmental bodies.²⁸⁵ The Federal Trade Commission, for example, noted in 1999 that the “number of direct, international business-to-consumer transactions involving electronic commerce is expected to increase significantly in the future” and further solicited comments as to what extent there was a “need for international dispute resolution procedures or tribunals for consumers engaged in electronic commerce with foreign businesses.”²⁸⁶ Given the advancements made within the ODR industry, the time is ripe for virtual-world providers and real-world merchants to embrace an ODR system.

The commercial activity that accompanied the third stage of ODR development is significant for multiple reasons. During this time, ODR methods were extended to the resolution of trademark disputes.²⁸⁷ Due to a lack of initial formal regulation of name allocation for the domain name system, when some companies finally established an online presence, they frequently found their domain name already registered to someone else.²⁸⁸ Companies responded by invoking trademark claims against the individuals who retained exclusive control over the domain name.²⁸⁹

In response, the nonprofit Internet Corporation for Assigned Names and Numbers (“ICANN”) was established in 1998 for the sole purpose of managing and supervising the assignment of domain names.²⁹⁰ After its creation, ICANN created an ODR mechanism to resolve domain name disputes.²⁹¹ The

²⁸³ See *id.* at 54–57 (explaining several different studies and noting the most enlightening study discovered that without a prior agreement requiring the parties to arbitrate, it was difficult to convince the parties to participate).

²⁸⁴ See *id.* at 47–48 (differentiating this period from the previous period as a time when ODR is favored as a first choice for settlement as opposed to a last resort).

²⁸⁵ *Id.* at 57 (“The most recent period has been characterized by significant entrepreneurial activity and strong interest and support by high-level governmental and corporate bodies.”).

²⁸⁶ *Id.* at 58–59.

²⁸⁷ See KATSH & RIFKIN, *supra* note 252, at 64–65 (describing the use of ODR to resolve domain name disputes).

²⁸⁸ *Id.* Domain names by nature are exclusive; one person or business is able to exploit the uses of a word as an Internet domain. *Id.* at 65. Katsh and Rifkin cite the example of McDonalds.com, which was registered by a journalist before it was registered by the well-known hamburger restaurant chain. *Id.* at 64.

²⁸⁹ *Id.* at 64.

²⁹⁰ *Id.*

²⁹¹ *Id.* at 65.

ICANN Uniform Dispute Resolution Policy (“UDRP”) quickly became the standard way to resolve registered domain name disputes.²⁹² Several countries even mimic the UDRP for the domain name disputes encountered within their own country.²⁹³ While the UDRP is not a mandatory or binding arbitration, few trademark holders pursue court action to resolve domain name disputes, instead opting to use the UDRP mechanism.²⁹⁴ Thus, UDRP is an important example of an ODR process that has resolved online trademark disputes effectively. However, ODR is just one of the many types of trademark enforcement options available to attempt to resolve trademark infringement disputes.

VI. TRADEMARK ENFORCEMENT OPTIONS

Unauthorized trademark use in virtual worlds is rampant.²⁹⁵ In order to avoid unnecessary litigation, possible trademark enforcement options for real-world companies and game players include contractual clarity, conditional licensing, establishment of a virtual-world presence, and in-game arbitration systems and educational programs.

A. Contractual Clarity—Placing the Onus on Game Providers

Clarity of terms is paramount in any contractual situation.²⁹⁶ The TOS agreements that guide MMORPGs are no exception. A typical TOS acts as the contract between the gamer and the game provider,²⁹⁷ and it should expressly define how far intellectual property rights extend for each governed party as well as the scope of rights granted through user-based permissions.

The TOS can expressly define the application of trademark law through several provisions. It can begin by explicitly delineating who retains rights to content creation. This is the case in Second Life, where the TOS states that its

²⁹² Gilliéron, *supra* note 259, at 309. The UDRP provides a non-binding, non-mandatory arbitration forum to resolve domain name disputes. KATSH & RIFKIN, *supra* note 252, at 65. Although trademark holders may still bring a civil action, most conflicts are resolved by the UDRP. *See id.*

²⁹³ Gilliéron, *supra* note 259, at 309 (noting the United States, France, and the United Kingdom).

²⁹⁴ KATSH & RIFKIN, *supra* note 252, at 65 (explaining that court cases “are relatively few compared to the number of disputes handled through the UDRP”).

²⁹⁵ *See* DURANSKE, VIRTUAL LAW, *supra* note 2, at 151 (approximating the number of in-world profitable trademark infringement transactions within Second Life to be over 2.4 million each year).

²⁹⁶ *See* 11 SAMUEL WILLISTON & RICHARD A. LORD, A TREATISE ON THE LAW OF CONTRACTS § 30:4 (4th ed. 1999) (“It is a generally accepted proposition that where the terms of a writing are plain and unambiguous, there is no room for interpretation or construction . . .”).

²⁹⁷ *See* DURANSKE, VIRTUAL LAW, *supra* note 2, at 117.

residents retain “intellectual property rights with respect to Content [they] create in Second Life, to the extent that [they] have such rights under applicable law.”²⁹⁸ However, users shall not “take any action or upload, post, e-mail or otherwise transmit Content that infringes or violates any third party rights.”²⁹⁹ Linden Lab further claims that it “generally removes content that uses trademarks without apparent authorization”³⁰⁰ Therefore, even though Second Life grants full intellectual property ownership to its residents, it also forbids violation of third party rights. Thus, an effective TOS agreement will reduce ambiguity by making its terms clear.

A TOS should also define the scope of rights granted through user-based permissions,³⁰¹ which would allow a greater range of choices for a user to license rights. For example, a user might permit another user to modify and add to his creation.³⁰² Thus, if Gamer A created a virtual car and Gamer B wished to add to the design, Gamer A could consent through a user-based permission mechanism built into the TOS.³⁰³

One of the largest problems with putting the burden on virtual-world providers to clarify trademark rights within a TOS agreement is contractual unconscionability, considering that users often have no choice in deciding whether to agree to these terms or not.³⁰⁴ Some have criticized TOS agreements for being unconscionable for two reasons: (1) because “click-wrap licenses,” agreements that must be clicked on to proceed to play, rarely are read in their entirety,³⁰⁵ and (2) because many virtual-world players are minors, who may not fully understand the terms of the agreement.³⁰⁶

A final issue with placing the onus on game providers to clarify trademark rights within TOS agreements is the problem of enforcement. Enforcing a TOS is essentially a business decision, not a legal obligation. The game provider is

²⁹⁸ SL TOS, *supra* note 35.

²⁹⁹ *See id.*

³⁰⁰ Second Life Wiki, Trademarks and Copyright in Second Life, http://wiki.secondlife.com/wiki/Help:Trademarks_and_Copyright_in_Second_Life (last visited Apr. 7, 2009).

³⁰¹ *See* Marcus, *supra* note 61, at 90–91 (arguing that TOS agreements should use “an expansive set of code-based user permissions that function as licenses”).

³⁰² *See id.* at 91.

³⁰³ Under an even more extensive user-based permission system, he could even grant Gamer B permission for a price. This would benefit both Gamer A and Gamer B, as Gamer A could retain rights to his creation, and Gamer B would have the freedom to develop Gamer A’s design.

³⁰⁴ *See* DURANSKE, *VIRTUAL LAW*, *supra* note 2, at 123–129 (analyzing disputes regarding contracts between users and virtual world providers including unconscionability).

³⁰⁵ *See* Sheldon, *supra* note 49, at 776–79.

³⁰⁶ *See* Steven Hetcher, *User-Generated Content and the Future of Copyright: Part Two—Agreements Between Users and Mega-Sites*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 829, 855–59 (2008) (analyzing the contractual relationships that exist between minors who create user-generated content and site content providers).

simply giving itself the option to terminate an account or not, and it is not cost effective to enforce these provisions in every situation.³⁰⁷ Thus, where a virtual-world provider seeks to maximize its profits, it may reach a point at which contract enforcement is no longer profitable, and the TOS can no longer be relied upon to resolve gamer-game provider disputes.

B. Placing the Onus on the Real-World Company

Placing the burden of protecting a trademark on the trademark owner may also be a logical solution. Real-world companies can ensure their trademarks are protected within a virtual world by embracing the existence of the virtual platform. As such, they can choose to either license marks out to gamers or establish a presence within the virtual world itself.³⁰⁸

1. Licensing Marks to Users

To decrease possible litigation concerning virtual-world trademark disputes, one can allocate responsibility to the interested real-world companies.³⁰⁹ One particularly effective solution in this regard is to license trademarks. For example, Coca-Cola has allowed products with its trademark to exist in the virtual world by conditionally granting the right to virtual sellers.³¹⁰ By proactively licensing its trademark, Coca-Cola is able to avoid litigation through expressly stating the manner in which virtual sellers may use its trademark and retaining control over who may use it. In this way, the company ensures its mark is being used properly, it is clear to the gamer how the mark should be used, and the game provider encourages both corporate and gamer use of its platform.

One negative aspect of placing the burden on the real-world company to police its mark is the additional responsibility to the company of implementing a system to grant and enforce each license. A company would have to determine

³⁰⁷ DURANSKE, *VIRTUAL LAW*, *supra* note 2, at 130–31.

A virtual world provider's Terms of Service and EULAs prohibiting sexual and racial harassment aren't couched as an obligation on the part of the provider to maintain a world free of sexual and racial harassment—the provider is merely giving itself the option of getting rid of people who violate those provisions.

Id.

³⁰⁸ See Jacoby, *supra* note 8, at 7 (discussing real-world companies entering the virtual world); Adam Reuters, *Update—Coca-Cola Gives Away Its Trademark in SL?*, SECOND LIFE REUTERS, Jun. 28, 2007, <http://secondlife.reuters.com/stories/2007/06/28/coca-cola-%20gives-away-its-trademark-in-sl/> (reporting that Coca-Cola licensed its mark to Second Life merchants).

³⁰⁹ See *Playboy Dealing with Knockoffs*, *supra* note 173; Reuters, *supra* note 308.

³¹⁰ See Reuters, *supra* note 308.

whether it should grant any given individual gamer a license on a case-by-case basis and, given the significant number of virtual-world users,³¹¹ this might prove too daunting. However, one commentator suggests vigilance by the company is the best way to protect its intellectual property, specifically in Second Life.³¹²

2. *Establishing a Virtual-World Presence*

Aside from clearer TOS terms and licensing marks to gamers, a real-world company can guard its trademarks in the virtual world by establishing its own presence in the virtual world. Due to the sheer volume of virtual-world activity, it is necessary to monitor persistently for trademark infringement; establishing a major presence in the virtual world allows a business to stay up-to-date with virtual market trends.³¹³

One downside to establishing a virtual-world presence is the effort required to maintain that presence. As *Reuters* reported in an article concerning a business that had entered the virtual world too quickly, “[i]t turned out people wanted to log on to Second Life to hang out with friends and play casual games, not visit a 3-D version of a corporate Web site.”³¹⁴ Indeed, a company that wishes to enter the virtual world will have to think of it as a new interactive platform with its own corresponding advertising strategies in order to succeed.

C. Arbitration Systems and Educational Programs within the Virtual World—Placing the Onus on the Gamers

Lastly, virtual-world arbitration systems and virtual education programs may provide a practical and plausible solution to avoiding constant and prolonged trademark litigation. Both allow for a clarification of issues within the virtual world; therefore, they are the best method for enforcing trademark protection before a dispute reaches a real-world courtroom.

³¹¹ See MMOGCHART.com, *supra* note 30 (displaying more than sixteen million users).

³¹² See Ben Quarmby, *Pirates Among the Second Life Islands—Why You Should Monitor the Misuse of Your Intellectual Property in Online Virtual Worlds*, 26 CARDOZO ARTS & ENT. L.J. 667 (2009).

³¹³ See Scott Hills, *Companies Shifting Virtual World Strategies*, SECOND LIFE REUTERS, Oct. 11, 2007, <http://secondlife.reuters.com/stories/2007/10/11/companies-shifting-virtual-world-strategies/>.

³¹⁴ *Id.* (describing Cisco Systems’s virtual office building as a ghost town filled only with digital tumbleweeds).

1. *Virtual-World Arbitration Systems*

It is logical to regulate virtual-world trademark matters within the virtual world because it is the locus of the dispute—thus, one should consider ODR techniques within the virtual world to avoid real-world litigation.³¹⁵ Of the existing types of formal ADR systems, arbitration is the best suited for the resolution of in-game disputes for several reasons.

First, mandatory ADR provisions can be required by a contractual pre-dispute arbitration provision in a game provider's TOS. The law is lucid that such mandatory ADR clauses are binding and may not be waived.³¹⁶ Thus, the arbitration process is highly conducive to contractual arrangements and could be incorporated easily into contracts. Second, arbitration specifically allows two parties to resolve their problems swiftly. Unlike negotiation and mediation, arbitration assures the parties that the issue "will be resolved by the end of the process."³¹⁷ Third, arbitration is more procedurally formal than private mediation or negotiation. In a dispute regulated by arbitration mechanisms, the third-party arbitrator controls the process and decides the outcome.³¹⁸ Arbitration allows for a better turnaround time in resolving disputes, as formal procedural mechanisms are already in place and prevents one party from protesting minor grievances. Lastly, in-game arbitration reduces transactional costs that traditionally accompany court adjudication.³¹⁹

In practice, a game company or a collective of gamers could create a virtual trademark office to deal with individual trademark infringement claims that arises within the virtual world. Ideally, this type of office would allow trademark owners to virtually "register" their trademarks. With such a registry in place, a game provider could further set up a process whereby a claimant could file a complaint to be delivered to the alleged infringer for a small fee and facilitate "virtual arbitration hearings," avoiding real-world litigation.

At a virtual arbitration hearing, the interested parties would present their dispute to a separate third-party panel, comprised of other virtual-world members, who would then issue a binding decision. Similar to the ICANN UDRP, such an online arbitration mechanism would provide trademark holders with a process that was faster, less costly, and more easily accessible than traditional

³¹⁵ Farnaz Alemi, *An Avatar's Day in Court: A Proposal for Obtaining Relief and Resolving Disputes in Virtual World Games*, 2007 UCLA J.L. & TECH. 6, 44–50 (2007), available at http://www.lawtechjournal.com/articles/2007/06_080130_alemi.pdf (setting the framework for an in-game dispute resolution system for virtual world crime that would be analogous to an in-game small claims court).

³¹⁶ 55 AM. JUR. TRIALS *Alternative Dispute Resolution* § 2 (1995).

³¹⁷ FREY, *supra* note 260, at 264.

³¹⁸ *Id.*

³¹⁹ See KATSH & RIFKIN, *supra* note 252, at 25 (noting that real-world arbitration is more cost effective than litigation).

litigation.

Second Life has already seen the dawning of such a trademark-registering institution within its own game—the Second Life Patent and Trademark Office (“SLPTO”)—that is owned and operated by Second Life residents and content creators.³²⁰ Though it is still in its experimental stage and disclaims any legal authority, its primary goal is to assist owners in establishing and protecting their virtual property.³²¹ It offers Second Life users a variety of free intellectual protection tools for virtual assets.³²² Eventually, the SLPTO plans to offer a full range of mechanisms that will oversee “individual item registration, automated [Digital Millennium Copyright Act] notices and copyright applications, limited edition numbering, and private, time-stamped storage of evidence of creation.”³²³

Alternatively, gamers could consider hybrid arbitration methods. SquareTrade is one of the most notable Internet ODR systems that utilizes hybrid ADR methods to handle its disputes, most of which deal with eBay transactions.³²⁴ SquareTrade offers its customers a two-stage process: (1) a free negotiation process without third-party assistance, and if that proves unsuccessful, (2) an online mediation process with third-party assistance.³²⁵ An effective hybrid solution for trademark dispute in virtual worlds would be a mediation-arbitration technique—allowing two disputing parties to mediate with third-party assistance, and if that proves unsuccessful, permitting an arbitration panel to decide on an outcome.³²⁶

One drawback of virtual arbitration systems is that unless the parties specify otherwise, the arbitrator’s decision is binding. Arbitration awards are not appealable to a court unless there is some degree of procedural unconstitutionality or abuse of the arbitrator’s discretion.³²⁷ Moreover, arbitration panels comprised of virtual-world residents require a high degree of self-governance and coordination. However, residents are more knowledgeable about the occurrences that take place within their own virtual worlds; thus, this could render a faster and more just verdict for the virtual citizen. Moreover, residents who wish to have their own trademarks registered—or who already do—will likely

³²⁰ Max Vern, *Second Life—A New Dimension for Trademark Infringement*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 51, 56 (2008).

³²¹ *Id.*

³²² Benjamin Duranske, *SLPTO Offers Second Life Content Creators Suite of Intellectual Property Protection Tools*, VIRTUALLY BLIND, Oct. 29, 2007, <http://virtuallyblind.com/2007/10/29/slpto-goes-live/> [hereinafter Duranske, *SLPTO*].

³²³ Duranske, *SLPTO*, *supra* note 322; see also Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998).

³²⁴ See KATSH & RIFKIN, *supra* note 252, at 66.

³²⁵ *Id.*

³²⁶ See FREY, *supra* note 260, at 19.

³²⁷ *Id.* at 223.

wish to serve on the boards of these arbitration panels in order to see first-hand how the law applies to the virtual landscape.

2. *Virtual-World Educational Programs*

In addition to virtual-world arbitration, all parties should be concerned with promoting awareness of legal issues within the virtual world, so as to facilitate a virtual platform open to creativity and free from legal dispute. This can be furthered through both real-world educational programs and virtual classes. For example, a Bar Association already exists in Second Life, as do virtual Continuing Legal Education classes on the legal ramifications of virtual property.³²⁸ Second Life's Continuing Legal Education classes cover pertinent intellectual property topics such as, "Intellectual Property Enforcement in Virtual Worlds," "Internet Fraud," and "Trademark Infringement in Virtual Worlds."³²⁹ Educational programs ensure that parties stay up to date on the current legal trends in the virtual community and such awareness may decrease future litigation.

Virtual-world arbitration systems and educational programs provide the best options for trademark protection in virtual worlds. Virtual-world educational programs help inform gamers of their intellectual property rights and, therefore, help to prevent trademark infringement from occurring in the first place. Subsequently, virtual-world arbitration systems act as an important mechanism for remedying virtual-world trademark disputes before they escalate into real-world litigation. Together, virtual arbitration systems and educational programs are the best solution to guaranteeing that the gamer is informed and that trademark disputes are resolved.

VI. CONCLUSION

Though virtual worlds may seem contained to the world of make-believe, the development of virtual economies and the surge of players creating content laid the foundation for a virtual world rife with legal dispute. Within online platforms that encourage creation, virtual-world participants are expending substantial amounts of time creating items they claim to own, and, therefore, wish to see their rights protected. Similarly, companies can no longer afford to

³²⁸ See Martha Neil, *Attorney Avatars Create Virtual Bar, Virtual Law & Virtual CLE Courses*, ABA J. (Jan. 8, 2008), http://abajournal.com/news/attorney_avatars_create_virtual_bar_virtual_law_virtual_cle_courses.

³²⁹ Benjamin Duranske, *SL Bar Association to Offer CLE Credit for In-World Legal Seminars; Initial Sessions Free for Members*, VIRTUALLY BLIND, July 8, 2008, <http://virtuallyblind.com/2008/07/08/sl-bar-association-cle-in-world/>.